

DECISION ITEM



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT AND STANDARDS COMMITTEE	25 JUNE 2015	6

INTERNAL AUDIT ANNUAL REPORT 2014-15

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

The Public Sector Internal Audit Standards (The Standards) require the Head of Internal Audit to provide an annual report to the Audit Committee. The Standards also specify that the report must contain:

- an internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment), together with any qualifications to the opinion;
- a summary of the audit work from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
- a statement on the extent of conformance with the Standards including progress against the improvement plan resulting from any external assessments.

The report provides an opinion on the effectiveness of the Council's system of internal control in support of the Annual Governance Statement. It also summarises the work undertaken by internal audit from April 2014 to March 2015 and performance information for the same period.

RECOMMENDATIONS

1. To approve the annual report of the Head of Internal Audit
2. To confirm the report provides suitable assurance concerning the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes that are in place to achieve the objectives of the Council.

CORPORATE PRIORITIES

To Promote the Enhancement of The Natural & Built Environment (Place)		To Encourage Cohesive Communities (People)	
To Promote a Thriving Economy (Prosperity)		To Meet Expectations of our Customers (Performance)	√

SUMMARY OF PREVIOUS DECISIONS

The internal audit interim report for 2014/15 was approved by the Audit Committee at its meeting on 29 January 2015.

REPORT

1 Introduction

1.1 The Role of Internal Audit

The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is therefore a key part of the Council's internal control system and integral to the framework of assurance that the Audit Committee can place reliance upon in its assessment of the internal control system.

1.2 Definition of Internal Audit

The definition of internal audit, as described in the UK Public Sector Internal Audit Standards (PSIAS), is set out below:

- Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

1.3 The Independence of Internal Audit

1.3.1 Independence is the freedom from conditions that threaten the ability of internal audit to carry out internal audit responsibilities in an unbiased manner.

1.3.2 To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Head of Internal Audit has direct and unrestricted access to senior management and the Audit & Standards Committee.

1.3.3 Organisational independence is effectively achieved by the Head of Internal Audit reporting functionally to the Audit & Standards Committee. Examples of such functional reporting involve the committee in:

- Approving the internal audit charter,
- Approving the risk based internal audit plan,
- Receiving communications from the Head of Internal Audit on internal audit's performance relative to its plan and other matters,
- Making appropriate enquiries of management and Head of Internal Audit to determine whether there are inappropriate arrangements or resource limitations

1.4 Purposes of the Report

1.4.1 The Internal Audit Team is responsible to the Director of Resources for carrying out a continuous examination of the accounting, financial and other operations of the Council in accordance with Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2011. The latter states that "the relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."

1.4.2 The PSIAS require that the Head of Internal Audit must deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement. The annual report must incorporate:

- the opinion (an objective assessment of the framework of governance, risk management and control)
- a summary of the work that supports the opinion
- a statement on conformance with the PSIAS
- the results of the quality assurance and improvement programme

1.4.3 The report also summarises the activities of internal audit for the financial year 2014-15 to provide managers and members with the opportunity to review the service provided to the Council.

1.5 Statement of Conformance with Public Sector Internal Audit Standards

1.5.1 The Internal Audit service works to a new Charter approved by the Audit Committee in March 2015 that fully reflects the requirements of the PSIAS. This Charter governs the work undertaken by the service, the standards it adopts and the way it interfaces with the Council. The Internal Audit team is required to adhere to the code of ethics, standards and guidelines of relevant professional institutes and the relevant professional auditing standards.

1.5.2 Internal Audit has adopted, and complied with the principles contained in the PSIAS, and has fulfilled the requirements of the Accounts and Audit Regulations 2011 and associated regulations in respect of the provision of an internal audit service.

1.6 Quality Assurance and Improvement Programme

1.6.1 All internal audit teams are required to develop a Quality Assurance and Improvement Programme (QAIP) that includes both internal and external assessments. Internal assessments include both ongoing monitoring and periodic self-assessment. External assessments must incorporate independent validation.

1.6.2 An internal assessment was carried out in September 2014 by the Head of Internal Audit using the recommended checklist contained within CIPFA's Local Government Application Note, which accompanies the PSIAS, and the results were presented to the Audit Committee. A small number of actions were identified that required attention to ensure the internal audit service was fully compliant with the PSIAS and the report sets out the current position.

1.6.3 In January 2015 the Audit Committee approved the approach whereby periodic external assessments of Internal Audit will take the form of a self-assessment subsequently validated by suitably qualified individuals or teams from members of the Lancashire District Councils Audit Group on a reciprocal basis across a 5 year cycle.

2 The Statement of Assurance

2.1 Context

2.1.1 The Council's internal auditors are required to provide the appropriate forum with assurance on the system of internal control. The Constitution has designated the Audit & Standards Committee with responsibility for considering the Head of Internal Audit's annual report and opinion.

2.1.2 In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Audit & Standards Committee is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

2.1.3 The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

2.2 Internal Audit Opinion

2.2.1 We are satisfied that sufficient internal audit work for the year ended 31 March 2015 has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, internal control and governance processes.

2.2.2 In our opinion, reliance can generally be placed on the Council's control environment, particularly in the case of fundamental financial systems. However, there remain a small number of high priority findings to address. Based on the work we have completed, we believe that there is some risk that management's objectives may not be fully achieved in some areas.

2.2.3 The evidence to support the opinion is contained within this report.

2.3 Scope of the Internal Audit Opinion

2.3.1 In arriving at our opinion, we have taken into account:

- The results of all internal audits undertaken during the year ended 31 March 2015 (see Table Two for details of the opinions given during the year);
- The results of follow-up action taken in respect of audits completed;
- Whether or not any fundamental or significant recommendations have not been accepted or implemented by management and the consequent risks;
- The results of external audit work during the year and any concerns expressed by the External Auditor;
- The results of any other external inspection or assessment;
- The effectiveness of the Council's risk management arrangements;
- The effectiveness of the Council's governance arrangements, including internal audit

2.4 Basis of the Opinion

2.4.1 In reaching this opinion the following factors were taken into particular consideration:

External Audit Work during 2014/15

2.4.2 The main part of the external auditor's work relates to the Council's financial accounts. The external auditor's Report to Those Charged with Governance for 2013/14 which was reported to the meeting of the Audit Committee on 25 September 2014, concluded that the Council's organisational control environment was effective overall, and that no significant weaknesses in controls over key financial systems had been identified. The report concluded that proper arrangements to secure economy, efficiency and effectiveness were in place. It also provided an opinion to verify that the Council had complied with all legal and regulatory frameworks with respect to its accounting arrangements resulting in an unqualified opinion.

2.4.3 The Annual Audit Letter, presented to the 20 November 2014 meeting, detailed the external auditor's view on performance and financial management. An unqualified value for money conclusion was issued meaning the Council was judged to have proper arrangements for securing both financial resilience and achieving economy, efficiency and effectiveness. An unqualified opinion was also issued on the financial statements meaning they gave a true and fair view of the Council's financial position. There were no high priority issues raised as a result of the audit work.

2.4.4 The Certification of Grants and Returns Report, reported to the 30 January 2015 committee, summarised the outcomes of the external auditor's certification work. An unqualified certificate was issued for the grant claim work.

Other External Inspection

2.4.5 There were no other external inspections during 2014-15 to take into account.

Risk Management

2.4.6 The Council's risk management framework is established by the Risk Management Strategy. It provides information on the approach, responsibilities, processes and procedures and sets the context in terms of how risks will be identified, profiled, managed and reviewed. The Strategic Risk Management Group is fundamental to the process and meets to ensure risk management remains high on the corporate agenda. There is also regular reporting to the responsible committee. The Audit & Standards Committee is designated as the elected member committee with responsibility for risk management.

2.4.7 The most recent audit review of the risk management process resulted in an action plan that was fully implemented in 2013/14. The implementation of the audit recommendations suggests that substantial reliance can reasonably be placed on the effectiveness of the Council's risk management arrangements. A further review is included in this year's internal plan.

Governance

2.4.8 A self-assessment exercise was undertaken by the Chair and Vice Chair of the Audit Committee, supported by the Head of Internal Audit, in relation to the effectiveness of the former Audit Committee. The main conclusion drawn from the self-assessment was that the Audit Committee had the framework in place to act effectively and did so in practice. There were no new issues arising from the review, which was presented to the committee on 26 June 2014. A review of the Audit & Standards Committee will be held during the current financial year.

2.4.9 The Head of Internal Audit is a member of the Corporate Governance Group, which is charged with the compilation of the annual governance statement and improvement plan. As part of standard internal audit work, the corporate governance framework was also reviewed against the CIPFA/Solace Good Governance Framework and the addendum to the framework and revised guidance note issued in 2012. Any matters for improvement or development are included in the 2015 Annual Governance Statement.

Internal Audit

2.4.10 The Accounts and Audit Regulations 2011 state that each local authority "must, at least once in each year, conduct a review of the effectiveness of its internal audit". The regulations go on to state that the findings of this review should be considered by a committee of the relevant body as part of the wider consideration of the Council's system of internal control.

2.4.11 Since 1 April 2013 the PSIAS have been the mandatory standards for all principal local authorities subject to the Accounts and Audit Regulations 2011. This year's review of the effectiveness of internal audit against the PSIAS checklist has indicated compliance with the principles within the Standards but a few areas of partial non-conformance. These were included in an action plan and the report sets out the current position.

Internal Control

2.4.12 The Accounts and Audit Regulations 2011 require local authorities to conduct a review at least once in a year of the effectiveness of its system of internal control. This section of the report provides an opportunity for the Committee to consider the work of Internal Audit and whether the outcomes provide evidence of a satisfactory level of internal control within the organisation.

2.4.13 During the financial year 2014-15 thirteen reports were issued. All have been accepted by management and in all appropriate cases action plans are now in place. The agreed reports and action plans are available to view via the Internal Audit Work page on the Intranet.

2.4.14 We categorise recommendations arising from audit work as high, medium or low priority. High indicates a significant control weakness that may lead to material loss, exposure to fraud or failure to meet regulatory requirements. Medium suggests a less important vulnerability not fundamental to system integrity. Low priorities relate to good practice improvements or enhancements to procedures that merit management attention.

2.4.15 We also measure the overall level of assurance based on the adequacy and effectiveness of internal control in a system on a five-point scale. Table one sets out the assurance levels and definitions as follows:

Table One: Levels of Assurance

Level	Definition
5 Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives
4 Substantial Assurance	While there is basically a sound system of control, there are some minor weaknesses, which put some of the system objectives at risk
3 Moderate Assurance	While there is on the whole a sound system of control, there are some more significant weaknesses that may put some of the system objectives at risk
2 Limited Assurance	There are significant/serious weaknesses in key areas in the systems of control that put the system objectives at risk
1 No Assurance	The control framework is generally weak leaving the system open to significant error or abuse

2.4.16 Table Two shows the category of recommendations identified for each audit completed, together with the level of assurance for the system reviewed.

Table Two: Reports, Risk & Assurance

Audit Area	High Risks	Medium Risks	Low Risks	Assurance Level
Individual Electoral Registration ¹	-	1	2	Full
Business Continuity ¹	6	17	6	Limited
Data Quality - Sickness PI ¹	-	-	-	Moderate
Corporate Governance	-	7	5	Substantial
Council Tax - FCAT	-	-	-	Full
Business Rates - FCAT	-	-	-	Full
Fleet Management	-	10	3	Moderate
Ethical Governance	-	6	9	Moderate
Waste Service Management ²	-	6	4	-
IT Civica Financials Application	-	5	-	Substantial
Sundry Debtors	-	3	-	Full
Council Tax ³	-	-	4	Substantial
Fuel Cards	-	-	7	Full
Total	6	55	40	

¹ Reviews from 2013/14 finalised in 2014/15

² Non-assurance review

³ Joint audit with Blackpool Council

2.4.17 Table Three shows both the average and main system assurance scores for those systems reviewed by Internal Audit over the last five years and the average for the same period:

Table Three: Assurance Ratings

Audit Area	2010/11	2011/12	2012/13	2013/14	2014/15	5 Year Average
All Reviews Average	3.3	3.7	3.8	3.7	4.0	3.7
Main Financial Systems:	4.2	4.2	4.4	4.5	4.5	4.4
<i>Business Rates</i>	4.5	*	~	4.7	~	4.6
<i>Cash Collection</i>	3.8	3.8	*	4.7	*	4.1
<i>Council Tax</i>	*	~	4.5	4.7	4.4	4.5
<i>Creditors</i>	4.4	*	4.4	*	°	4.4
<i>Housing Benefits</i>	4.0	*	4.4	*	~	4.2
<i>Main Accounting</i>	*	4.3	*	4.6	*	4.5
<i>Payroll</i>	3.6	*	*	3.6	*	3.6
<i>Sundry Debtors</i>	4.6	*	4.3	*	4.6	4.5
<i>Treasury Management</i>	*	4.6	*	4.7	*	4.7

* Not undertaken

~ Reviewed via FCAT

° Review ongoing

2.4.18 For those systems reviewed during the year the average assurance score on the scale of 1 to 5 was 4.0. Main financial systems had a better average score of 4.5. The 'All Reviews' figure shows an improvement compared to last year and exceeds the average score over the five year period. The figure for 'Main Financial Systems' remains the same as last year and represents the highest average score achieved.

2.4.19 The 'Main Financial Systems' score equates to full assurance, while the 'All Reviews Average' remains the equivalent of substantial assurance. Taken together they indicate that overall there is a sound framework of control in place but some weaknesses may put certain management objectives at risk.

2.4.20 Several important internal control weaknesses brought to the attention of management were monitored during the year. Six of these actions relate to one area of work and form part of a specific improvement process. All have already been included previous reports.

2.4.21 Table Four sets out the issues, the responsible Director and the current position or date for resolution.

Table Four: High Priority Risks Identified

Risk	Director	Resolution Date
2013/14 Risks		
1. Develop and test an effective Disaster Recovery Plan for ICT Services	Resources	Completed ¹
2. Carry out a full Business Impact Analysis (BIA) to identify critical services	Resources	Completed
3. Develop an effective and current Corporate Business Continuity Plan arising from the BIA and reflecting existing risks and structures	Resources	Mar 2015
4. Hold a copy of the Corporate Business Continuity Plan off site in a safe accessible place not dependent on a functioning ICT system	Resources	Mar 2015

5. Develop effective Business Continuity Plans for all critical services	Resources	Completed ¹
6. Provide training for key business continuity personnel	Resources	Completed
7. Conduct an annual exercise to test the Council's planned response to business disruption	Resources	Sep 2015

¹Subject to evidential verification

2.4.22 The present position in summary based on the evidence available is as follows:

- Two risks have been addressed in full and evidence verified - numbers 2, 6
- Two risks have been reported as complete but subject to evidential verification - numbers 1, 5
- One action has not yet reached the agreed date for completion - number 7
- Two actions have passed the agreed date for completion but remain outstanding - numbers 3, 4

2.4.23 In terms of the outstanding actions we are advised by responsible managers as follows:

- Risk 3 - The corporate Business Continuity Plan will be completed by 31 July.
- Risk 4 - This is contingent on completion of the action above and will be completed concurrently.

Follow Up

2.4.24 Follow-up reviews are performed to appraise management of post audit actions and provide assurance that audit recommendations have been implemented. Sixteen follow-up reviews were completed during the year. Table Five shows the total number of agreed recommendations that were implemented by managers.

Table Five: Agreed Recommendations Implemented

Audit Area	R e c o m m e n d a t i o n s		
	Total Agreed	Number Implemented	% Implemented
Previous Years' Reports			
Trade Waste	7	7	100%
Treasury Management	2	2	100%
FMS/MOT Service	20	20	100%
IT Contract Management	3	3	100%
Corporate Governance 2013	17	17	100%
Main Accounting	3	3	100%
Data Protection (Resources)	20	19	95%
Travel & Expenses	15	13	87%
Development Management - PIP Action Plan	9	9	100%
Homelessness	16	15	94%
Payroll	8	8	100%
Heritage Assets	10	7	70%
Cash Collection	2	2	100%
Mayoralty	12	11	92%
Council Tax/Business Rates Collection	6	6	100%
2014-15 Reports			
Individual Electoral Registration	3	3	100%
Total	153	145	94.8%

2.4.25 The overall implementation rate for all reports followed up in 2014/15 is 94.8% compared to last year's figure of 90.1%. This year's outcome is above the target of 90%.

2.4.26 In addition to the overall rate, the percentage of high and medium priority recommendations implemented is also measured. Table Six shows the total number of agreed high and medium recommendations that were implemented by managers. Any follow up reviews where no high or medium recommendations were made have been omitted from the table.

Table Six: High & Medium Recommendations Implemented

Audit Area	High Priority		Medium Priority		%
	Yes	No	Yes	No	Implemented
Previous Years' Reports					
Trade Waste	-	-	2	-	100%
FMS/MOT Service	-	-	17	-	100%
IT Contract Management	-	-	2	-	100%
Corporate Governance 2013	-	-	6	-	100%
Data Protection (Resources)	-	-	11	1	92%
Travel & Expenses	-	-	9	2	82%
Development Management - PIP Action Plan	-	-	5	-	100%
Homelessness	-	-	13	1	93%
Payroll	-	-	5	-	100%
Heritage Assets	-	-	5	3	63%
Cash Collection	-	-	1	-	100%
Mayoralty	-	-	6	-	100%
Council Tax/Business Rates Collection	-	-	2	-	100%
2014-15 Reports					
Individual Electoral Registration	-	-	1	-	100%
Total	-	-	85	7	92.4%

2.4.27 The classification of recommendations as 'high', 'medium' or 'low' priority indicates where resources might best be applied. The percentage of high and medium priority recommendations implemented in 2014/15 was 92.4% compared to last year's 86.1%. This result is below the target of 95%.

2.4.28 Table Seven shows both the overall and 'high/medium' priority implementation rates for those reviews followed up by Internal Audit over the last five years and the average for the same period:

Table Seven: Annual Implementation Rates

Category	2010/11	2011/12	2012/13	2013/14	2014/15	Average
Overall Implementation %	94.9	84.4	92.1	90.1	94.8	91.3
High/Medium Implementation %	93.1	84.3	91.7	86.1	92.4	89.5

2.4.29 The rates of implementation by managers have improved from last year's figures. For 2014/15 the annual overall rate of implementation was the second highest achieved in the five-year

period, while the percentage of high and medium priority recommendations implemented also ranked at the same level. Both were above the five-year average score.

3 Other Internal Audit Work

3.1 Special Investigations and Counter Fraud Work

Investigations

3.1.1 During the year the audit team commenced five special investigations into allegations of fraud and corruption. Four of these arose as a result of employee whistleblowing concerns. One was reported by a member of the public. The responsible Directors/Heads of Service were made aware of the various issues as appropriate. In four cases the matters raised have been completely resolved but the evidence in one case was inconclusive. Currently the whistle blower is unwilling to proceed further with the matter.

3.1.2 Table Eight summarises the results of the various special investigations during 2014/15 compared with the outturn for previous years.

Table Eight: Results of Fraud Investigations

Outcome	2010-11	2011-12	2012-13	2013-14	2014-15
Disciplinary action	-	1	-	-	1
Management action	-	-	-	-	2
Third party restitution	-	-	1	-	-
No evidence to support allegation	-	1	2	-	1
Inconclusive evidence	-	-	-	1	1
Investigation terminated	1	-	-	1	-
Investigation ongoing	-	-	-	-	-
Total	1	2	3	2	5

3.1.3 Altogether some 58 days have been taken up dealing with special investigations and reactive fraud work during the year. The Council has adopted a zero tolerance commitment to fraud and corruption and the amount of investigative work required is not predictable. However, this year its impact on the achievement of the audit plan has been significant.

Whistleblowing

3.1.4 There were four instances of employee whistleblowing during 2014/15. Two related to allegations of fraud, mentioned above, while the other two were in connection to alleged inappropriate behaviour by supervisors and suggested poor management practice that were separately addressed by management.

National Fraud Initiative

3.1.5 The Head of Internal Audit acts as key contact for the National Fraud Initiative data matching exercise; nominating data download contacts and co-ordinating the production of housing benefit, payroll, council tax, creditor and licensing information for a data matching exercise.

3.1.6 The previous biennial exercise revealed overpayments totalling of £74,000 with ongoing savings in future years. The current 2014/2015 exercise is ongoing with the latest phase having commenced during January/February 2015 involving the comparison of datasets from council tax to

the electoral register. The Council is currently participating in the Council Tax Reduction pilot matching scheme, which will result in further matches for investigation.

Shared Fraud Service

3.1.7 The Head of Internal Audit is responsible for overseeing the delivery of the shared fraud service provided by Preston City Council. During 2014/15 this related to the investigation of housing benefit and council tax reduction scheme fraud. Fraudulent and other overpayments of £233,666 were discovered, exceeding the £200,000 target. The service also delivered 27 sanctions including 7 prosecutions, which was below the agreed target of 30.

3.1.8 The Head of Internal Audit has also taken the leading role in developing arrangements for the corporate fraud service after responsibility for the investigation of housing benefit fraud transferred to the Department for Work & Pensions. A new shared service with Preston City Council is now in place, effective from the 1 June.

Counter Fraud Work

3.1.9 In addition to the above, internal audit has undertaken the following counter fraud work, which is not an exhaustive list:

- prepared and submitted data and statistics to the National Fraud Survey 2014 of over 450 public sector bodies about a wide range of fraud and corruption issues, which seeks to assess the incidence of fraud and the effectiveness of responses to it
- performed a 'fitness for purpose' check and comprehensive refresh of the Council's Anti-fraud & Corruption, Whistleblowing, Money Laundering and Sanction & Prosecution policies

3.2 Projects, Consultancy and Advice

3.2.1 This section summarises the range of services, beyond internal audit's assurance role. Such work may be requested by senior managers, rather than forming part of the risk-based audit function. Commonly, tasks will involve problem-solving issues as an aid to management for the enhancement of their service. The nature and scope of the work may include participation in projects, facilitation, process design, training, and advisory services, but this list is not exhaustive.

3.2.2 During the year internal audit has undertaken project work, provided advice or acted in a consultancy capacity in the following areas, which is not an exhaustive list:

- Corporate Governance - as part of the governance framework the Head of Internal Audit is a member of the Corporate Governance Group, which leads on the production of the Annual Governance Statement and the monitoring of the Corporate Governance Improvement Plan.
- Strategic Risk Management - jointly led the annual exercise to identify strategic risks facing the Council, set the corporate risk appetite and devise action plans to manage unacceptable risks. This work involved interviewing members of Management Team and senior councillors and facilitating a risk management workshop along with the Risk & Emergency Planning Officer.
- Corporate Fraud – drafting and negotiating the new service level agreement with Preston City Council for the newly established shared corporate fraud service.

4 Performance of Internal Audit

4.1 Internal Audit Plan

4.1.1 A risk assessed annual audit plan was prepared for 2014-15 based on the resources available. The plan was agreed by management and received approval from the Audit Committee. The total number of days in the plan was 573, not including time for things such as holidays, sickness, training and non-audit duties.

4.1.2 However, during 2014/15 various changes to the team and recruitment problems significantly impacted on the time available to achieve the annual plan. A total adjustment of 140 days was required to take account of the reduced resources available. A detailed report to the Audit Committee in January 2015 set out the position and an appropriate reduction to the plan was confirmed.

4.1.3 The revised plan omitted 118 days by not undertaking planned work and ultimately the remaining days were saved from within the audits in progress. The plan prioritised the audits of the remaining fundamental financial systems, follow up reviews of audits already undertaken, significant corporate matters and the conclusion those audits already commenced. The results are set out in Table Nine.

Table Nine: Internal audit plan

Audit Activity	Plan days	Revised days	Actual days	% of total
Main Financial systems	120	105	79	18.4
Risk Based Reviews	106	52	35	8.2
Corporate Governance	41	44	46	10.7
Performance Management	4	2	2	0.5
Computer audit	26	16	13	3.0
Anti-fraud audit	26	10	16	3.7
Follow Up work	20	30	34	7.9
Reactive audit	35	5	5	1.2
Reactive fraud	15	55	61	14.2
Communication & Consultancy	44	31	32	7.5
Management & Admin	136	105	106	24.7
Total	573	455	429	100%

4.1.4 The analysis of outturn days shows additional days were saved in completing the main financial reviews and the risk based reviews, however some slippage of work into 2015/16 did occur. For all other categories a reasonably similar time was spent when compared with the revised plan.

4.1.5 The changes to the audit plan inevitably resulted in a reduced level of audit coverage overall but the compromise plan represented the best use of time available in the prevailing circumstances. The percentage of the revised 2014/15 audit plan completed at 31 March was 98.1%, above the 90% target for the year.

4.2 Client Satisfaction

4.2.1 All audit reports issued include a client feedback questionnaire for the auditee to give their views on the different aspects of the audit. The overall satisfaction rate was 88.6% just below the 90% target. Table Ten sets out the questions and the responses received.

Table Ten: Summary of Client Feedback Questionnaires

Question	Average Score	Excellent %	Good %	Satis %	Fair %	Poor %
Audit review covered key control risks	89	57	43	-	-	-
Review was carried out in a timely and efficient manner	89	71	29	-	-	-
Auditors were polite, positive and professional	91	71	29	-	-	-
Involvement of auditee in the process	89	71	29	-	-	-

was appropriate

Well structured and clear audit reporting

Findings and recommendations were accurate and useful

Review provided assurance or resulted in beneficial change

Average

90

71

29

-

-

-

87

57

43

-

-

-

86

57

43

-

-

-

89

65

35

-

-

-

4.3 Performance Indicators

4.3.1 In 2009 an exercise was carried out to canvass the views of stakeholders about developing a suite of performance indicators for internal audit. Subsequently the Audit Committee adopted the seven indicators that had received the highest usefulness rating from stakeholders and established targets for achievement. Table Eleven sets out the targets for 2014/15, together with the actuals for the two most recent years.

Table Eleven: Performance Indicators for Internal Audit

Performance Indicator	Target	Actuals 2013/14	Actuals 2014/15
IA1 % of audit plan completed	90%	95.0%	98.1% ¹
IA2 % satisfaction rating indicated by post-audit surveys	90%	89.6%	88.6%
IA3 % of audit recommendations agreed with management	95%	97.4%	100%
IA4 % of agreed actions implemented by management	90%	90.1%	94.8%
IA5 % of 'High Priority' actions implemented by management	100%	100.0%	50.0%
IA6 % of 'High/Medium Priority' actions implemented by management	95%	86.1%	92.4%
IA7 % of recommendations implemented at initial follow up	75%	74.6%	73.9%

¹ Revised Audit Plan

4.3.2 The first two performance indicators reflect specifically on the work and service of the internal audit team. The remaining indicators relate to the effectiveness of audit work as a result of management's action or inaction.

4.4 Quality Assurance Improvement Programme

4.4.1 Internal Audit's Quality Assurance and Improvement Program (QAIP) is designed to provide reasonable assurance to the various stakeholders of the service that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards (PSIAS), Definition of Internal Auditing and Code of Ethics;
- Operates in an efficient and effective manner;
- Is adding value and continually improving internal audit operations

4.4.2 The Head of Internal Audit is ultimately responsible for the QAIP, which covers all types of Internal Audit activities. The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodic, while external assessments must be undertaken at least once every five years, arrangements for which were agreed by the Audit Committee.

4.4.3 Ongoing internal assessments are conducted through:

- Supervision of engagements

- Documented review of work papers during engagements by the Head of Internal Audit/Senior Auditor
- Audit policies and procedures used for each engagement including the Procedure Manual to ensure compliance with applicable planning, fieldwork and reporting standards
- Feedback from customer surveys on individual engagements
- Analysis of key performance indicators established to improve Internal Audits effectiveness and efficiency
- All draft and final reports and recommendations are reviewed and approved by the Head of Internal Audit

4.4.4 Certain information that contributes to the ongoing assessment are included in this report, such as feedback from customer surveys and analysis of key performance indicators.

4.4.5 Periodic internal assessments are designed to evaluate conformance with Internal Audit's Charter, the Public Sector Internal Audit Standards, Definition of Internal Auditing, the Code of Ethics. The Head of Internal Audit carried out such a review and presented a report to the Audit Committee at the September meeting that included an action plan for improvement.

4.4.6 Table Twelve sets out the issues and the current position or date for resolution:

Table Twelve: QAIP Improvement Action Plan

Action	Resolution Date	Status
2014/15 Improvement Actions		
1. Present a report to Audit Committee with proposals for periodic external assessment of internal audit	Mar 2015	Completed
2. Include the results of the QAIP and progress against any improvement plan in the annual report	Mar 2015	Completed
3. Refresh the IA Procedure Manual to ensure compliance with the requirements of the PSIAS	Sep 2015 ¹	In progress
4. Amend audit reports to state the extent to which audits are conducted in accordance with the PSIAS	Oct 2014	Completed

¹ Extension from Mar 2015

IMPLICATIONS	
Finance	<p>The Accounts and Audit Regulations 2011 require the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.</p> <p>There is a statutory requirement for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control (Accounts and Audit Regulations 2011)</p>
Legal	Internal Audit work contributes towards the production of the Annual Governance Statement published each year by the Council.
Community Safety	No specific implications
Human Rights and Equalities	No specific implications
Sustainability and Environmental Impact	No specific implications
Health & Safety and Risk Management	Internal audit work covers key areas of risk and should therefore strengthen the internal control framework. The Interim Internal Audit report arises from that work and is an important element of the assurance process for the effectiveness of the Council's systems of internal control.

LEAD AUTHOR	TEL	DATE	DOC ID
Savile Sykes	01253 658413	25 June 2015	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Audit Plan 2014/15	March 2014	All background papers or copies can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail saviles@fylde.gov.uk
Quality Assurance Improvement Programme	September 2014	
Revised Audit Plan 2014/15	January 2015	