

DECISION ITEM



REPORT OF	MEETING	DATE	ITEM NO
HEAD OF INTERNAL AUDIT	AUDIT AND STANDARDS COMMITTEE	16 JUNE 2016	8
INTERNAL AUDIT ANNUAL REPORT 2015-16			

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 2015 to March 2016 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 effectiveness of risk management, control and governance processes in terms of the exercise of the Council's functions and the achievement of its aims and objectives

SUMMARY OF PREVIOUS DECISIONS

The internal audit interim report for 2015/16 was approved by the Audit Committee at its meeting on 21 January 2016.

CORPORATE PRIORITIES	
Spending your money in the most efficient way to achieve excellent services (Value for Money)	√
Delivering the services that customers expect of an excellent council (Clean and Green)	√
Working with all partners (Vibrant Economy)	
To make sure Fylde continues to be one of the most desirable places to live (A Great Place to Live)	
Promoting Fylde as a great destination to visit (A Great Place to Visit)	

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 2015. The latter states that “A relevant authority must ensure that it has a sound system of internal control which:

- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- ensures that the financial and operational management of the authority is effective; and
- includes effective 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 2015-16 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 2015 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 2015 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 and Standards Committee. A small number of non-conformance areas were identified that prevented the internal audit service being 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. These reviews commence in 2016/17.

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 2016 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 are a number of emerging issues to address, some from audits and follow up reviews not yet finalised. Based on the work we have completed in the year, 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 2016 (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 2015/16

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 2014/15 which was reported to the meeting of the Audit and Standards Committee on 24 September 2015, concluded that there were no audit matters of governance interest arising from the audit of the financial statements. The report concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and delivered an unqualified audit opinion on the Authority's financial statements.

2.4.3 The Annual Audit Letter, presented to the 26 November 2015 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 financial resilience and challenging how it secures 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. The review of the Council's Annual Governance Statement concluded that it was consistent with the auditors' understanding. 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 21 January 2016 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 2015-16 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 latest audit review of the risk management process has recently been completed resulting in an action plan for the consideration of management. The most important concern is the need to re-establish corporate risk management arrangements on a permanent and effective basis, which is currently in the process of being addressed. The overall outcome of the audit recommendations suggests that moderate reliance can reasonably be placed on the effectiveness of the Council's risk management arrangements at this time.

Governance

2.4.8 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. The matters for improvement, development or information included in the 2016 Annual Governance Statement were:

- The re-establishment of risk management arrangements in accordance with the Risk Management Strategy
- Defining the reciprocal agreement with Blackpool Council in relation to the provision of the Deputy Monitoring Officer role
- Enhancements to the contract register in accordance with the requirements of the Transparency Code
- A commitment to refresh equality and diversity training across the authority

Internal Audit

2.4.9 The Accounts and Audit Regulations 2015 state that each local authority "must, undertake an effective internal audit".

2.4.10 The Public Sector Internal Audit Standards set the benchmark of effectiveness and since 2013 have been the mandatory standards for all principal local authorities subject to the Accounts and Audit Regulations 2015. The annual 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. In some cases it was not possible to address the issues but one improvement was included in an action plan and the report sets out the current position.

Internal Control

2.4.11 The Accounts and Audit Regulations 2015 require local authorities to conduct an annual review 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.

2.4.12 During the financial year 2015-6 eighteen 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.

2.4.13 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.

2.4.14 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

2.4.15 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
Fuel Cards ¹	-	-	7	Full
Corporate Governance	-	2	2	Full
Attendance Management	-	7	5	Moderate
Financial Controls Assurance Testing				
Business Rates	-	-	-	Full
Council Tax	-	-	-	Full
Housing Benefits	-	-	-	Full
Income Collection - Central System	-	1	-	Full
Income Collection - Remote Sites				
Bereavement Services	-	-	1	Full

Customer Services	-	-	2	Full
Fairhaven Lake	3	-	-	Limited
Fleet Services	-	2	1	Moderate
Creditors	-	-	2	Full
Treasury Management	-	-	3	Full
Bereavement Services	-	3	3	Moderate
Complaints	-	7	3	Moderate
Payroll ²	-	11	8	Moderate
Expenses	-	1	2	Substantial
Main Accounting	-	-	2	Full

Total **3** **34** **41**

¹ Reviews from 2014/15 finalised in 2015/16

² Joint audit with Blackpool Council

2.4.16 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	2011/12	2012/13	2013/14	2014/15	2015/16	5 Year Average
All Reviews Average	3.7	3.8	3.7	4.0	4.0	3.8
Main Financial Systems:	4.2	4.4	4.5	4.5	4.4	4.4
<i>Business Rates</i>	*	~	4.7	~	~	4.7
<i>Cash Collection</i>	3.8	*	4.7	*	4.7	4.4
<i>Council Tax</i>	~	4.5	4.7	4.4	~	4.5
<i>Creditors</i>	*	4.4	*	o	4.8	4.6
<i>Housing Benefits</i>	*	4.4	*	~	~	4.4
<i>Main Accounting</i>	4.3	*	4.6	*	4.8	4.6
<i>Payroll</i>	*	*	3.6	*	3.1	3.4
<i>Sundry Debtors</i>	*	4.3	*	4.6	*	4.5
<i>Treasury Management</i>	4.6	*	4.7	*	4.8	4.7

* Not undertaken

~ Reviewed via FCAT

o Review ongoing

2.4.17 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 4.4. The 'All Reviews' figure remains the same as last year equalling the highest score achieved. The figure for 'Main Financial Systems' shows a marginal reduction compared to last year but equals the average score over the five year period.

2.4.18 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.

2.4.19 There were three important internal control weaknesses brought to the attention of management during 2015/16, and three brought forward from previous year. All the actions have been addressed with the exception of one in relation to testing the business continuity plan. An exercise to complete this action was scheduled for December but unfortunately the Risk and Emergency Planning Manager, who was to lead the exercise, was unwell and has now retired. The event has been rescheduled for next month.

2.4.20 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
Previous Years' Risks		
1. Develop an effective and current Corporate Business Continuity Plan arising from the BIA and reflecting existing risks and structures	Resources	Completed
2. Hold a copy of the Corporate Business Continuity Plan off site in a safe accessible place not dependent on a functioning ICT system	Resources	Completed
3. Conduct an annual exercise to test the Council's planned response to business disruption	Resources	June 2016 ¹
2015/16 Risks		
4. Staff at Fairhaven Lake who may deal with income will be made aware of the Banking & Cash Handling Procedure 2015 and required to sign the appropriate declaration	Development	Completed
5. Site specific procedures for secure operation of tills and safe custody of cash will be developed for Fairhaven Lake and responsible staff will be trained to follow them	Development	Completed
6. Standard managerial checks consistent with good practice in handling income and banking will be re-instated and consistently applied	Development	Completed

¹ Agreed Revised Date

Follow Up

2.4.21 Follow-up reviews are performed to appraise management of post audit actions and provide assurance that audit recommendations have been implemented. Eleven 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			
Data Protection (Resources) ¹	18	18	100%
Homelessness ¹	13	13	100%
Mayoralty ¹	12	12	100%
Heritage Assets ¹	10	10	100%
Council Tax	3	3	100%

Corporate Governance	12	11	92%
Ethical Governance	15	15	100%
2015-16 Reports			
Creditors	2	2	100%
Income Collection – Remote Sites			
Bereavement Services	1	1	100%
Customer Services	2	2	100%
Fairhaven Lake	3	3	100%
Total	91	90	98.9%

¹ Follow Up from 2013/14 reviews revisited in 2015/16

2.4.22 The overall implementation rate for all reports followed up in 2015/16 is 98.9% compared to last year's figure of 94.8%. This year's outcome is above the target of 90%. However, there are a number of follow up reviews that have been delayed as a result of changes to management structures and responsibilities.

2.4.23 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		% Implemented
	Yes	No	Yes	No	
Previous Years' Reports					
Data Protection (Resources)	-	-	10	-	100%
Homelessness	-	-	12	-	100%
Mayoralty	1	-	6	-	100%
Heritage Assets	-	-	8	-	100%
Corporate Governance	-	-	7	-	100%
Ethical Governance	-	-	6	-	100%
2015-16 Reports					
Income Collection – Remote Sites					
Fairhaven Lake	3	-	-	-	100%
Total	4	-	49	-	100%

2.4.24 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 2015/16 was 100% compared to last year's 92.4%. This result is above the target of 95%.

2.4.25 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	2011/12	2012/13	2013/14	2014/15	2015/16	Average
Overall Implementation %	84.4	92.1	90.1	94.8	98.9	92.1
High/Medium Implementation %	84.3	91.7	86.1	92.4	100	90.9

2.4.26 The rates of implementation by managers have improved from last year's figures. For 2015/16 the annual overall rate of implementation was the highest achieved in the five-year period, while the 100% implementation of high and medium priority recommendations 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 2015/16 no new investigations into allegations of fraud and corruption were commenced. However, one allegation was brought to the attention of internal audit but separately investigated.

3.1.2 Table Eight summarises the results of the various special investigations during 2015/16 compared with the outturn for previous years.

Table Eight: Results of Fraud Investigations

Outcome	2011-12	2012-13	2013-14	2014-15	2015-16
Disciplinary action	1	-	-	1	-
Management action	-	-	-	2	1
Third party restitution	-	1	-	-	-
No evidence to support allegation	1	2	-	1	-
Inconclusive evidence	-	-	1	1	-
Investigation terminated	-	-	1	-	-
Investigation ongoing	-	-	-	-	-
Total	2	3	2	5	1

3.1.3 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 not been significant.

Whistleblowing

3.1.4 There were no instances of employee whistleblowing during 2015/16.

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 2014/2015 biennial exercise revealed overpayments totalling of £35,000 with ongoing savings in future years. The Council also participates in an annual exercise involving the comparison of datasets from council tax to the electoral register, which in last year resulted in savings of £12,000. The live data extraction from the Council's systems in 2015/16 generated a significant number of matches for investigation and work in relation to this annual element is continuing.

Corporate Fraud Service

3.1.7 The Head of Internal Audit is responsible for overseeing the delivery of the shared corporate fraud service provided by Preston City Council. Until 31 May 2015 this related to the investigation of housing benefit and council tax reduction scheme fraud. After this date responsibility for the investigation of housing benefit fraud transferred to the Department for Work & Pensions.

3.1.8 In 2015/16 overpayments of housing benefit totalling £69800 have been identified resulting in 5 prosecutions and other sanctions. The value of non-housing benefit overpayments identified since 1 June is £25,600 with a further 5 sanctions achieved.

3.1.9 Overpayments are likely to be considerably less than in previous years because the amount of money involved in non-benefit fraud is generally lower. However, the corporate fraud service will be scrutinising areas that have never been investigated previously and the cost of the service to Fylde is considerably reduced to reflect these changed circumstances. In 2015/16 the cost of the service was zero as a result of a set-up grant from the government.

Counter Fraud Work

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

- review of officer's expenses claims focusing on car mileage submissions
- review of the use of fuel cards for making purchases of vehicle fuel
- preparation and submission data and statistics to the National Fraud Survey 2015 about a wide range of fraud and corruption issues, which seeks to assess the incidence of fraud and the effectiveness of responses to it
- performance of 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 - the Head of Internal Audit 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 Performance and Improvement Manager in the absence of the Risk & Emergency Planning Officer.

- Insurance - during the extended absence of the Risk & Emergency Planning Officer the Head of Internal Audit took over responsibility for the day to day running of the insurance service with help of the Performance and Improvement Manager and subsequently managed the delivery of the service.

4 Performance of Internal Audit

4.1 Internal Audit Plan

4.1.1 A risk assessed annual audit plan was prepared for 2015-16 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 566, not including time for things such as holidays, sickness, training and non-audit duties.

4.1.2 However, during 2015/16 various factors impacted on the resources available to achieve the annual plan. In the third quarter a full time member of the audit team resigned and an extended recruitment period occurred during which the Council's Risk and Emergency Planning Officer was taken ill unexpectedly. Subsequently the Head of Internal Audit has assisted in the delivery and provided the management for the insurance service. It was estimated that a total adjustment of at least 75 days would be required to take account of the reduced resources available.

4.1.3 A detailed report to the Audit and Standards Committee in January 2016 set out the position and appropriate adjustments to the plan were acknowledged. It was anticipated that the appointment of an experienced part time member of staff on a temporary basis early in 2016 would assist with the delivery of both insurance and audit duties. However, the contribution to audit has been negligible with insurance work using up 95% of the time available.

4.1.4 The revised 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	Actual days	% of total
Main Financial systems	154	171	35.8
Risk Based reviews	96	67	14.0
Corporate Governance	35	29	6.1
Computer audit	25	16	3.3
Anti-fraud audit	22	15	3.1
Follow Up work	19	24	5.0
Audit Contingency	35	6	1.3
Reactive fraud	15	2	0.4
Communication & Consultancy	38	33	6.9
Management & Administration	127	115	24.1
Total	566	478	100%

4.1.5 The analysis of outturn days shows additional days were needed to complete the main financial reviews and the follow up work, which were transferred from the contingency budget. However, some slippage of work into 2016/17 did occur in relation to the risk based reviews. For all

other categories a reasonably similar amount of time was spent when compared with the original plan.

4.1.6 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 2015/16 audit plan completed at 31 March was 89.2%, just below 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 90.7% just above 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	88	75	25	-	-	-
Review was carried out in a timely and efficient manner	90	100	-	-	-	-
Auditors were polite, positive and professional	93	100	-	-	-	-
Involvement of auditee in the process was appropriate	93	100	-	-	-	-
Well structured and clear audit reporting	93	100	-	-	-	-
Findings and recommendations were accurate and useful	90	100	-	-	-	-
Review provided assurance or resulted in beneficial change	90	100	-	-	-	-
Average	91	96	4	-	-	-

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 former 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 2015/16, together with the actuals for the two most recent years.

Table Eleven: Performance Indicators for Internal Audit

Performance Indicator	Target	Actuals 2014/15	Actuals 2015/16
IA1 % of audit plan completed	90%	98.1% ¹	89.2% ¹
IA2 % satisfaction rating indicated by post-audit surveys	90%	88.6%	91.0%
IA3 % of audit recommendations agreed with management	95%	100%	100%
IA4 % of agreed actions implemented by management	90%	94.8%	98.9%
IA5 % of 'High Priority' actions implemented by management	100%	50.0%	100%
IA6 % of 'High/Medium Priority' actions implemented by management	95%	92.4%	100%
IA7 % of recommendations implemented at initial follow up	75%	73.9%	57.1%

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 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
2015/16 Improvement Actions		
1. Investigate potential use of Assurance Mapping to identify all sources of assurance and the extent to which they can be relied upon	Mar 2016	Completed

IMPLICATIONS	
Finance	<p>The Accounts and Audit Regulations 2015 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 2015)</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
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LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Audit Plan 2015/16	March 2015	S:\Internal Audit\Internal Audit Annual Plan 2015-16.docx
Quality Assurance Improvement Programme	September 2015	S:\Internal Audit\IA Improvement Plan FINAL.doc
Internal Audit Interim Report	January 2016	S:\Internal Audit\IA Interim Report - Information Note.dotx