

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
HEAD OF INTERNAL AUDIT	AUDIT AND STANDARDS COMMITTEE	15 JUNE 2017	6
INTERNAL AUDIT ANNUAL REPORT 2016-17			

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 2016 to March 2017 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 2016/17 was approved by the Audit and Standards Committee at its meeting on 19 January 2017.

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 and Standards Committee.

1.3.3 Organisational independence is effectively achieved by the Head of Internal Audit reporting functionally to the Audit and 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 2016-17 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 the 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 Public Sector Internal Audit Standards, 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 2016 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 minor non-conformance points were identified but there was no further improvement action possible.

1.6.3 In January 2015 the former Audit Committee approved the approach whereby periodic external assessments of Internal Audit would 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.

1.6.4 The external peer review was carried out in December 2016 by the Heads of Internal Audit from Preston City Council and Chorley/South Ribble Borough Councils. A desk-top examination of relevant documentation was carried out and on-site visit conducted when the review team met senior officers and elected members. Following this the review team concluded that Fylde Internal Audit fully conformed to the requirements of the Public Sector Internal Audit Standards.

1.6.5 No significant findings requiring improvement actions were identified. However, the report included a number of positive observations that reflected good practice and minor observations that suggested how Internal Audit could continue to improve the service delivered and where appropriate these will form the Quality Assurance and Improvement Programme for 2017/2018.

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 and 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 and 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 2017 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. There were no restrictions of impairments in the scope of audit work that required to be disclosed.

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 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. There were no qualifications to the opinion that required to be disclosed.

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 2017 (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 2016/17

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 2015/16, which was reported to the meeting of the Audit and Standards Committee on 28 July 2016, concluded that there were no audit matters of governance interest arising from the audit of the financial statements. In addition, there were no uncorrected difference reported and no differences requiring correction. 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 2015/16, presented to the 17 November 2016 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 19 January 2017 committee, summarised the outcomes of the external auditor's certification work. One issue was identified that overstated the Housing Benefit Subsidy claim by £12. The claim was certified but subject to a qualification letter, although no improvement recommendation was deemed necessary.

Other External Inspection

2.4.5 During May 2016, a Peer Review Challenge was undertaken at Fylde by a team of local government professionals on behalf of the Local Government Association. As part of this review the new governance arrangements were examined. Subsequently, the Council engaged a governance expert from the Institute of Local Government Studies at Birmingham University took a strategic view on the operation of the committee arrangements. The main conclusion was that the Council had successfully made the transition from Executive to Committee governance.

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. Currently a revised strategy awaits adoption. 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 and 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 completed in 2016 resulted in an action plan agreed by management. The implementation of the action plan is currently being followed up. The most important concern, regarded as a high risk, was the need to re-establish corporate risk management arrangements on a permanent and effective basis, which has been addressed. However, several of the other recommendations remain outstanding. The overall outcome of the audit review was that limited reliance could be placed on the effectiveness of the Council's risk management arrangements.

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 Delivering Good Governance Framework 2016. The matters for improvement, development or information included in the 2017 Annual Governance Statement were:

- Adopting a revised Code of Corporate Governance to reflect the 2016 Delivering Good Governance Framework
- The review and update of business continuity arrangements and plans
- A commitment to refresh data security 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. An external review of the effectiveness of the internal audit service against the PSIAS checklist has indicated full compliance with the Standards. Some minor observations that suggest how Internal Audit can continue to improve the service delivered form the Quality Assurance and Improvement Programme for 2017/2018 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 2016-7 sixteen reports were issued. All have been accepted by management and in all appropriate cases agreed action plans are now in place.

2.4.13 We categorise recommendations arising from audit work as high, medium or low priority. High indicates a significant control weakness that may result in failure to achieve corporate objectives, reputational damage, material loss, exposure to serious fraud or failure to meet legal/statutory requirements. Medium suggests a less important vulnerability not fundamental to system integrity that could result in failure to achieve operational objectives, non-material loss, or non-compliance to departmental operational/financial procedures. Low priorities relate to good practice improvements or enhancements to procedures that merit management attention, although several low risks in combination may give rise to concern.

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, which is consistently applied
4 Substantial Assurance	There is essentially a sound system of control but there are some minor weaknesses, which may put achievement of certain system objectives at risk
3 Moderate Assurance	While there is on the whole a sound system of control, some controls are not consistently applied resulting in more significant weaknesses that may put some system objectives at risk
2 Limited Assurance	There are significant/serious weaknesses and inconsistent application of controls in key areas 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 and is not capable of meeting its objectives

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
Main Accounting ¹	-	-	1	Full
Corporate Governance 2016	-	4	4	Full
Procurement	3	13	8	Limited
Risk Management	1	11	2	Limited
Food Hygiene Scheme	-	5	3	Substantial
Financial Controls Assurance Testing				
Business Rates	-	-	-	Full
Council Tax	-	-	-	Full
Housing Benefits	-	-	-	Full
Income Collection - Fairhaven Lake	1	10	-	Limited
IT Service Continuity	3	7	2	Limited
IT Probity	-	4	-	Moderate
Section 106 Agreements	-	10	8	Moderate
Housing Benefit - RBV Assurance	-	-	-	Full
CTax & Business Rates Refunds ²		1	8	Substantial
CTax & Business Rates Refunds (Fylde) ²	-	-	5	Substantial
Sundry Debtors	-	3	2	Substantial
Total	8	68	43	

¹ Reviews from 2015/16 finalised in 2016/17

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	2012/13	2013/14	2014/15	2015/16	2016/17	5 Year Average
All Reviews Average	3.8	3.7	4.0	4.0	3.7	3.8
Main Financial Systems	4.4	4.5	4.5	4.4	4.5	4.5

2.4.17 For those systems reviewed during the year the average 'All Reviews' assurance score on the scale of 1 to 5 was 3.7. Main financial systems had a better average score of 4.5. The 'All Reviews' figure shows a slight reduction from last year's best ever score of 4.0. Meanwhile the figure for 'Main Financial Systems' shows a marginal improvement compared to last year and matches to the 5 Year Average.

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 eight important internal control weaknesses brought to the attention of management during 2016/17, and one brought forward from a previous year. Six of the actions have been addressed in full, with significant improvement noted in respect of one further action. The remaining two high priority actions are currently outstanding, although a complete overhaul of Business Continuity is planned for the next six months and the agreed changes to IT processes are now rescheduled for August.

2.4.20 Table Four sets out the issues, the current position and/or date for resolution.

Table Four: High Priority Risks Identified

Risk	Resolution Date	Comment
Previous Years' Risks		
Conduct an annual exercise to test the Council's planned response to business disruption	-	Completed
Current Year's Risks		
The Finance Team will take responsibility for compiling an up-to-date contracts register and maintaining it thereafter.	-	Completed
The contracts register will be published in accordance with the Local Government Transparency Code 2015.	-	Completed
Unsuccessful bidders must be sent the mandatory 'Alcatel' letter at the conclusion of the procurement process both to allow a standstill period of at least 11 days for an effective challenge to the award decision before the contract is concluded and to provide details of the tender evaluation scores	Apr 2017 (Jul 2016)	The situation is much improved, but there are still inconsistencies and some uncertainty among procuring officers
Responsibility for the delivery of the risk management function will be allocated to a competent resource on a permanent basis. Once appointed the risk management pages of the Intranet will be updated with the details of the responsible officer.	-	Completed
The Senior Coast & Countryside Officer will be designated as responsible for managerial supervision of Fairhaven Lake and for maintaining evidence of checks undertaken and any actions arising.	-	Completed
A programme of regular business continuity exercises will be carried out in accordance with the Business Continuity Management Policy to	Nov 2017 (Mar 2017)	Following the BCP desk top exercise in Sep 2016, no

test the effectiveness of all of the council's business continuity plans.	(Sep 2016)	formal action plan has been developed to address/mitigate the risks identified. A full review of BC is planned over the next 6 months
Undertake an exercise to confirm that suitable support and maintenance agreements are in place for all ICT services and systems as a matter of urgency, and suitable actions taken to address any areas of weakness.	-	Completed
Ensure procedures are developed so that each service is made aware of support and maintenance agreements as contracts expire to enable them to respond with replacements or reviews agreed in a timely manner to maintain cover	Aug 2017 (Apr 2017) (Jul 2016)	Currently all systems have existing suitable support arrangements. Further enhancements are in progress, in order to build into the existing IT Help Desk function a complete and up-to-date asset catalogue of all hardware and software entitlements.

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. Seventeen 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			
Treasury Management	3	3	100%
Fuel Cards	7	7	100%
Waste Management	10	9	90%
Sundry Debtors	3	1	33%
Income Collection (Central)	1	0	0%
IT Service Management	7	6	86%
Overtyped Mileage Facility	3	2	67%
Travel and Expenses	14	13	93%
Attendance Management	12	11	92%
Corporate Governance 2015	4	4	100%
Civica Financials Application	5	5	100%
Business Continuity	29	24	83%
Fleet Management	13	3	23%

Income Collection (FMS)	3	3	100%
Complaints	10	6	60%
Bereavement Services	6	3	50%
Main Accounting	1	0	0%
Total	131	100	76.3%

2.4.22 The overall implementation rate for all reports followed up in 2016/17 is 76.3% compared to last year's figure of 98.9%. This year's outcome is below both the target of 90% and the 5-year average rate for overall implementation which stands at 90.4%.

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					
Waste Management	-	-	5	1	83%
Sundry Debtors	-	-	-	1	0%
Income Collection (Central)	-	-	-	1	0%
IT Service Management	1	-	3	-	100%
Overtyped Mileage Facility	-	-	1	-	100%
Travel and Expenses	-	-	10	1	91%
Attendance Management	-	-	6	1	86%
Corporate Governance 2015	-	-	2	-	100%
Civica Financials Application	-	-	5	-	100%
Business Continuity	6	-	13	4	83%
Fleet Management	-	-	2	8	20%
Income Collection (FMS)	-	-	2	-	100%
Complaints	-	-	5	2	71%
Bereavement Services	-	-	-	3	0%
Total	7	-	54	22	73.5%

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 2016/17 was 73.5% compared to last year's 100%. This result is below 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	2012/13	2013/14	2014/15	2015/16	2016/17	Average
Overall Implementation %	92.1	90.1	94.8	98.9	76.3	90.4
High/Med Implementation %	91.7	86.1	92.4	100	73.5	88.7

2.4.26 The rates of implementation of agreed actions by managers have declined from last year's exceptional figures. For 2016/17 the annual overall rate of implementation was the lowest achieved in the five-year period, while the 73.5% implementation of high and medium priority recommendations also ranked at the same level. Both were below the five-year average score.

3 Special Investigations and Counter Fraud Work

Investigations

3.1 During 2016/17 one new investigation into an allegation of fraud was commenced. The investigation was carried out by the shared corporate fraud resource. Management is currently considering its final response to the findings.

3.2 Table Eight summarises the results of the investigations into fraud and corruption for previous years.

Table Eight: Results of Special Investigations

Outcome	2012-13	2013-14	2014-15	2015-16	2016-17
Disciplinary action	-	-	1	-	-
Management action	-	-	2	1	-
Third party restitution	1	-	-	-	-
No evidence to support allegation	2	-	1	-	-
Inconclusive evidence	-	1	1	-	-
Investigation terminated	-	1	-	-	-
Investigation ongoing	-	-	-	-	1
Total	3	2	5	1	1

3.3 Less than 4 days have been taken up dealing with special investigations and reactive fraud work during 2016/17.

National Fraud Initiative

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

3.5 The extraction and upload of data for the main biennial exercise was successfully completed in 2016 and the investigative commenced early in 2017. The previous 2014 exercise revealed overpayments totalling almost £35,000 to date with ongoing savings in future years.

Shared Fraud Service

3.6 The Head of Internal Audit is responsible for overseeing the delivery of the shared fraud service provided by Preston City Council. The service is tasked with investigating fraud, bribery and corruption by employees, members, contractors, consultants, suppliers, service users and members of the public who have dealings with the Council. This excludes responsibility for the investigation of housing benefit fraud, which transferred to the Department for Work & Pensions in 2015.

3.7 During 2016/17 overpayments of £33,000 have been identified, most in relation to Council Tax discounts/exemptions and overpayments under the Council Tax Reduction Scheme. The value of overpayments identified is less than in previous years because the amount of money involved in non-benefit fraud is generally lower. However, the fraud service was tasked in 2016/17 with achieving annual savings greater than its £27,000 cost to the council, which has been surpassed.

Whistleblowing

3.8 There has been one employee whistleblowing during the current year to date, which resulted in advice and guidance rather than an investigation.

4 Performance of Internal Audit

4.1 Internal Audit Plan

4.1.1 The original Audit Plan was approved by the Audit and Standards Committee in March 2016 and reflected the prevailing organisational risks and priorities for Internal Audit input at that time. The total number of days in the plan was 354, not including time for things such as holidays, sickness, training and non-audit duties. Table Nine summarises the current position with each of audit reviews included in the plan.

Table Nine: Internal Audit Plan 2016/17 at 31 March 2017

Audit Areas	Plan Days	Status
Main Financial Systems		
Council Tax/Business Rates ¹	20	Complete
Council Tax FCAT	15	Ongoing
Creditors/Purchasing	18	Work in Progress
Housing Benefit	2	Complete
Housing Benefit FCAT	18	Ongoing
National Non-Domestic Rates FCAT	12	Ongoing
Payroll FCAT	16	Ongoing
Sundry Debtors	16	Complete
Risk Based Reviews		
Car Parking	18	Work in Progress
Emergency Planning	18	Included in 2017/18 Plan
Fairhaven Lake - Income Collection	2	Complete
Information Governance	20	Work in Progress
Food Safety	4	Complete
Section 106 Agreements	13	Complete
Procurement	5	Complete
Corporate Governance		
Annual Governance Review	14	Complete
Audit Committee - Effectiveness	2	Complete
Internal Audit - Effectiveness	3	Complete
Risk Management	4	Complete
Computer Audit		
IT Audit ²	16	Awaiting budget provision
IT Probity	5	Complete
IT Service Continuity	3	Complete
Anti- Fraud		
Corporate Fraud	8	Ongoing
National Fraud Initiative	8	Ongoing
Prevention of Fraud & Corruption	2	Complete

Follow Up

Follow Up Reviews	20	Ongoing
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Communication & Consultancy

General Consultancy/Advice	15	Ongoing
Communication/Liaison	22	Ongoing
Public Sector Internal Audit Standards - Peer Review	20	Ongoing

Reactive Work

Contingency	15	Ongoing
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Total	354	
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¹ Joint Audit with Blackpool Council

² Externally provided

4.1.2 The percentage of the 2016/17 audit plan completed at 31 March was 85.5%, which is below the 90% target for the year. We anticipate completing all of the work in progress at 31 March within the first quarter of 2017/18. One further audit in relation to Emergency Planning has been included in the 2017/18 annual plan, approved by the Audit and Standards Committee at its last meeting.

4.1.3 The IT Audit for 2016/17 included in the plan was a specialised computer audit review, which is provided externally. In common with several other audit services across Lancashire, Fylde has used the County Council's computer audit resource to deliver this category of work. This option is no longer available and other means of delivering this work are being sought. Currently the unspent budget slippage is awaiting approval. If this externally provided work is discounted, then the in-house service has delivered 91% of its planned audit work, which is in line with expectations.

4.1.4 Despite the above, sufficient fundamental financial systems and significant corporate matters have been audited as originally planned, allowing the Head of Internal Audit to formulate an opinion of the overall adequacy and effectiveness of the Council's control environment as required by the Public Sector Internal Audit Standards.

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 90.4% 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	93	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	88	75	25	-	-	-
Findings and recommendations were accurate and useful	90	75	25	-	-	-
Review provided assurance or resulted in beneficial change	90	75	25	-	-	-
Average	90	86	14	-	-	-

4.3 Performance Indicators

4.3.1 Following a canvass of the views of stakeholders the former Audit Committee adopted a suite of seven indicators that represented the highest perceived usefulness rating and established targets for achievement. Table Eleven sets out the targets for 2016/17, together with the actuals for the two most recent years.

Table Eleven: Performance Indicators for Internal Audit

Performance Indicator	Target	Actuals 2015/16	Actuals 2016/17
IA1 % of audit plan completed	90%	89.2% ¹	85.5%
IA2 % satisfaction rating indicated by post-audit surveys	90%	91.0%	90.4%
IA3 % of audit recommendations agreed with management	95%	100%	100%
IA4 % of agreed actions implemented by management	90%	98.9%	76.3%
IA5 % of 'High Priority' actions implemented by management	100%	100%	100%
IA6 % of 'High/Medium Priority' actions implemented by management	95%	100%	73.5%
IA7 % of recommendations implemented at initial follow up	75%	57.1%	42.7%

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 Periodic internal assessments are designed to evaluate conformance with Internal Audit's Charter, the Public Sector Internal Audit Standards, Definition of Internal Auditing, and 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.

4.4.5 An external review of the effectiveness of the internal audit service against the requirements of the Public Sector Internal Audit Standards was carried out in December 2016 by the Heads of Internal Audit from Preston City Council and Chorley/South Ribble Borough Councils. This review combining a desk-top review of documentation and on-site interviews with senior officers and elected members reported full compliance with the Standards.

4.4.6 Some minor observations suggesting how Internal Audit can continue to improve the service delivered from the Quality Assurance and Improvement Programme for 2017/2018. Table Twelve sets out the issues and the current position or date for resolution:

Table Twelve: QAIP Improvement Action Plan

Action	Resolution Date	Status
1. In communicating with senior management, internal audit's key skills will be promoted and opportunities for adding greater value actively sought.	Mar 2018	Outstanding
2. An assurance framework will be developed along with management, to encompass the identification of the various sources of assurance for each audit activity.	Mar 2018	Outstanding
3. The relevant section of the Internal Audit Strategy will be expanded to more properly reflect the range of developmental opportunities available to and utilised by internal auditors.	Mar 2018	Outstanding
4. A consistent process for sharing plans with external auditors will be re-established to ensure proper coverage and to minimise duplication of effort.	Mar 2018	Outstanding
5. Risks, including those relating to fraud, will be identified at the scoping stage of audit reviews and will be prioritised according to severity. The associated controls will be identified and tested.	Mar 2018	Outstanding
6. Closer working with the BPR team will be sought to ensure controls are properly incorporated into new process re-design activities.	Mar 2018	Outstanding
7. The development of service risk registers will be actively sought as part of the development of the risk management framework and to facilitate a risk based approach to audit.	Mar 2018	Outstanding

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	No specific implications
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	CONTACT DETAILS	DATE
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BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Audit Plan 2016/17	March 2016	S:\Internal Audit\Background Papers\Internal Audit Plan 2016-17 - Linked to Corporate Priorities.docx
Quality Assurance Improvement Programme	September 2016	S:\Internal Audit\Background Papers\IA Improvement Plan 2016.doc
Internal Audit Interim Report	January 2017	S:\Internal Audit\Background Papers\IA Interim Report - Information Note.dotx