

Audit Committee

28 June 2017



Annual Review of the System of Internal Audit 2016 / 2017

Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

- 1 The purpose of this report is for members to consider and comment on the Annual Review of the System of Internal Audit for 2016/2017.

Background

- 2 The requirement for an Internal Audit function for local authorities is within section 151 of the Local Government Act 1972 and authority has been delegated to the Corporate Director of Resources to fulfil this function. Part 2, Regulation 5 of the Accounts and Audit Regulations 2015 requires that "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."
- 3 Internal Audit is defined as the means by which the Council assesses its governance and assurance requirements, ensuring that an effective internal control system is in place. Outcomes from the current governance process are evaluated and reported in the Annual Governance Statement.
- 4 To address the Accounts and Audit Regulations requirement, an assessment of Internal Audit has been carried out and is presented for consideration by those charged with governance.

Current Arrangements for Internal Audit

- 5 A dedicated Internal Audit Service forms part of the system of Internal Audit in the Council. The Service is part of the Resources Service Grouping. It is led by the Chief Internal Auditor and Corporate Fraud Manager. It has strong links with the Risk, Insurance Claims and Corporate Fraud and works closely with others across the Council tasked with governance, assurance and risk management. Whilst part of a wider service, it retains its own identity as Internal Audit for the Council.
- 6 The Chief Internal Auditor and Corporate Fraud Manager reports directly to the Corporate Director of Resources but also has direct access to the Chief Executive and the members of the Audit Committee.

- 7 At the start of 2016/17 the team comprised of 19 approved posts (17.35FTE) plus the Chief Internal Auditor and Corporate Fraud Manager. This team delivered work for the Council as well as work for external clients including Durham Police, Durham and Darlington Fire Authority and Peterlee Town Council.
- 8 The Vision and Strategy for Internal Audit is described in the Annual Internal Audit Plan and Strategy, the Internal Audit Service Terms of Reference (TOR) within the Internal Audit Charter and it outlines the status of the Section in context with the organisation and defines the principles of how the service operates. The TOR provides appropriate arrangements to ensure that the Service is sufficiently independent and objective and that there is access to all information and people required to discharge its responsibilities. The requirements of the new Public Sector Internal Audit Standards (PSIAS) released are reflected in the Internal Audit Charter.
- 9 Arrangements for investigation work are defined in the Council's policies and procedures for Counter Fraud and Confidential Reporting (Whistleblowing) and these are reported to Corporate Management Team and the Audit Committee in the Annual Protecting the Public Purse Report. The Council has also has a Corporate Fraud within the Service.
- 10 To examine the effectiveness of the Internal Audit Section for the past year this annual review considered key elements and assessed their contribution to enabling the Section to fulfil its responsibilities. These were:
 -) The structure and resourcing level, including qualifications and experience of the audit team;
 -) The extent of conformance with the PSIAS in producing quality work;
 -) Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis;
 -) The overall performance of the Internal Audit team.

Resourcing, Qualifications and Experience

Resourcing

- 11 During 2016/17 there was no staff turnover. One employee left the Council on Voluntary Redundancy on 31 March 2017. Therefore, the 20 audit employees were available for audit work during the year.
- 12 Audit work was actively managed within the resource available and progress toward delivery reviewed regularly. The focus was maintained on clear scoping and coverage for assurance activity; timing of work and availability of clients; and control over the allocation of resources for investigation referrals and in-year requests for support. Alternative means for gaining assurance were assessed and used where appropriate to support audit opinions. Progress and outcomes were regularly reported to Clients, Service Grouping Management Teams, Corporate Management Team and to the Audit Committee.

- 13 The audit plan was delivered at the year end, with a minimum need to carry forward audit work from 2016/17 into next year except where draft reports still require management responses to enable final reports to be issued or where services have asked for timings and/or scope changes in work. Some work was deferred following review of the audit plan and these have been agreed at the Audit Committee throughout the year.

Structure

- 14 The structure of the service reflects the configuration of the Council at Corporate Director level and allows for close client liaison during the year. The structure will be aligned slightly early in 2017/18 to reflect the new Senior Management Structure which is due to be in place on 01 June 2017. It is the intention that auditors continue to develop knowledge and client relationships. Where possible auditors will continue to work with similar service groupings to that of 2016/17 in order to offer an element of continuity for clients with whom we have built constructive relationships. We consider this approach continues to be successful in building a better understanding of the Council and its business needs and objectives and the service continues to receive positive feedback from management on this approach. There is a need for employee rotation for development purposes and to maintain objectivity, which will be continually reviewed.

Internal Audit and Risk Management

- 15 The service enables the objectives of Internal Audit to be more clearly articulated through the service planning process and is demonstrated in service plans. Key priorities, options for development and service delivery, service objectives assessments of performance and workforce plans are encapsulated in the annual Internal Audit Plan. Shared intelligence and some joint working has been undertaken to improve the assurance and support services offered to Service Groupings and Schools while maintaining Internal Audit's distinct identity.

Training and Experience

- 16 The training and development within the Division encourages development through the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Internal Auditors (IIA), the Association of Accounting Technicians (AAT) and continuing professional development.
- 17 During the year one auditor has progressed their IIA studies and another with their AAT studies. All other employees hold at least one audit qualification. For Continuous Professional Development (CPD) all employees have access to and attended events selected from internal and external training events. As such formal quarterly internal CPD sessions are now held for all employees. Individuals keep records of their continuing professional development based on their professional requirements and a central record is held on the Internal Audit software package 'Galileo'. A training plan for the coming year is being constructed based on needs for the service, linked to the service improvement plan and individual appraisals training plans.

- 18 The following information about qualifications and experience of employees available for audit work demonstrates the experience and qualification mix.

Experience 2016/2017

Auditing Experience	No	%	Local Government Auditing	%
Up to 1 Year	0	0	0	0
1 to 2 Years	0	0	0	0
2 to 5 Years	1	5	1	5
5 to 10 Years	5	25	5	25
Over 10 Years	14	70	14	70
Total Employees	20	100	20	100

- 19 The level of experience of audit employees was increased with those training who completed the IIA certificate course and experience log. The skills level available remains high based on the substantial number of employees with over 10 years' experience and competencies in specific areas.
- 20 At 31 March 2016 the Service has no vacant posts. This is reflected in the audit plan proposed for 2017/18.

Conformance with UK Public Sector Internal Audit Standards (PSIAS)

- 21 Internal Audit completed a self-assessment against the key elements of the PSIAS. For 2016/17 this demonstrated that the Section was conforming with the Code's requirements. This self-assessment has been based on the PSIAS that were in place during 2016/17 and future assessments both external and self-assessments will be conducted against the new PSIAS which were brought into effect on 01 April 2017.
- 22 All employees are introduced to the ethics requirements (as described in PSIAS) in relation to the professional role of an auditor. While the basis of this remains the same as in previous years employees are required to read and sign a document confirming they understand the ethics and behaviour requirements. All employees provide an annual declaration of interests for consideration to enable management to ensure that there was sufficient information to address any potential conflicts of interest which arise during audit activities. Employees are obliged to raise any conflicts or issues with management during the year. Records are maintained for this.
- 23 Quality of audit work was actively managed in year and the achievement of quality standards enabled the Chief Internal Auditor and Corporate Fraud Manager to confirm work has been completed in conformance with PSIAS. Individual audits have an agreed and clear scope; activity is reviewed and assessed for its effectiveness and quality during and after completion of work; and customer feedback is received from post audit questionnaires. An annual report for Corporate Directors was produced for 2015/16.

- 24 Liaison with the External Auditor was productive and audit plans were coordinated within this process. The two services continue to share information and to use this to inform risk assessments and direct audit activity.

Ensuring the Effective Prioritisation of Internal Audit Work

- 25 Prioritisation of the work of the Section is achieved by the development and delivery of an annual risk based audit plan. This describes the assurance plans for the Section and includes capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate. The plan is based on a mix of different types of audit and investigation work to ensure that assurance over the Council's systems of governance, risk management and internal control is obtained from a number of different directions and sources.
- 26 The section's methodology for establishing audit priorities is aligned with the Council's governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs to support the Council's overall objectives. The approach is set out in the Internal Audit Plan presented and agreed by the Audit Committee.
- 27 It is considered that the 2016/17 Internal Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with Senior Management and the Audit Committee. It was based on reasonable estimates of available resources and with management requests and fraud investigations and referrals. An emergent Internal Audit Plan was provided to the Audit Committee in February 2017 and the final internal Audit Plan for 2017/18 will be presented to Audit Committee in June 2017. This has been delayed slightly due to the local election process.

Performance Measures

- 28 Performance Management of the Section and for individual auditors is focused on deployment of auditor time to best effect. This has three main elements related to how much time is spent auditing, completion of audits within set timescales and effectiveness of time deployed. The key deliverable for the Section is the completion of the Internal Audit Plan within the year.
- 29 Performance and progress are monitored through Key Performance Indicators (KPIs). These are agreed with the Audit Committee as part of the Internal Audit Charter. And allow for benchmarking to assess effectiveness. Comparative figures are used to consider areas for closer review.

30 The key performance measures for the Section over the last 12 months are:

KPI	Measure of Assessment	Target	Actual as at 31 March 2017
Planned audits completed	% of plan achieved.	90%	102%
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure	90%	93%
Timeliness of Final Reports	% of final reports issued within 14 Calendar days of receipt of management response	95%	98%
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95%	100%
Post Audit Customer Surveys	% of customers scoring at least 3 out of 5	100%	100%
Customers providing feedback responses	% of customers returning satisfaction returns	70%	84%

31 There continues to be a positive response to customer satisfaction returns (up from 77% in 2015/16) and positive feedback on a number of specific assignments, which is reflected in the customer satisfaction questionnaires.

32 The issuing of draft reports is an assessment of the timeliness of the audit activity from the completion of a piece of work to the issuing of a draft report for consideration and response. This has been consistent with previous years with all reports being issued within the set timescales. Delays are largely consigned to school reports where clients are unavailable due to holidays etc.

33 No concerns have been raised in relation to the application of professional standards for audit work and there have been no formal complaints.

Implementation of Recommendations

34 The process for monitoring implementation of recommendations continues to build on improvements last year and there are good levels of engagement from all services across the Council. Working closely with managers allowed for greater understanding of the challenges faced and in ensuring practical recommendations were made and alternative solutions considered in order to address risk.

35 Internal Audit continues to engage with the Council's quarterly reporting process and deliver regular quarterly reports to Service Grouping Management Teams and to the Corporate Management Team. This process has ensured that time is targeted on key issues and that appropriate support and advice is offered at the right time.

- 36 The Audit Committee are provided with regular updates from the Section during the year and have the opportunity to challenge progress and outcomes. This includes asking senior managers to provide updates as necessary where there is felt of be a significant risk or concern. This process has provided an effective method for obtaining assurance during 2016/2017.

Audit Committee

- 37 The system of Internal Audit includes the role of the Audit Committee and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in the ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for the Audit Committee remained the same during 2016/2017.
- 38 Audit Committee request reports from management in response to issues raised in within Internal Audit reports, demonstrating the positive steps being taken by the Committee to seek assurance over actions being taken to respond to concerns.

Summary and key priorities

- 39 The service continues to build on its strengths and enhance its reputation. Service delivery remains a key priority in support of the Council's priorities and to help identify and address any risks to the delivery of corporate objectives. The service is on track to deliver a comprehensive plan for the year and it is considered that it has a sound base for carrying out its audit activities and meeting its objectives to provide audit assurance and advisory support to the Council.

Recommendation

- 40 Members are asked to note the findings and conclusions of the 2016/2017 review of the effectiveness of the system of Internal Audit contained within this report.

Contact: Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager
Tel: 03000 269645

Appendix 1: Implications

Finance – None.

Staffing – None.

Risk – None.

Equality and Diversity / Public Sector Equality Duty – None.

Accommodation – None.

Crime and Disorder – None.

Human Rights – None.

Consultation – None.

Procurement – None.

Disability Issues – None.

Legal Implications – Compliance with Accounts and Audit Regulations 2015.