

**REPORT TO:** Business Efficiency Board  
**DATE:** 3 June 2015  
**REPORTING OFFICER:** Operational Director – Finance  
**PORTFOLIO:** Resources  
**SUBJECT:** Internal Audit Annual Report – 2014/15  
**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to deliver an annual audit opinion and report which can be used to inform the Annual Governance Statement. The annual report must provide:

- A conclusion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;
- A summary of the work that supports the opinion;
- A statement on conformance with the PSIAS.

1.2 The Accounts and Audit Regulations 2011 provide a requirement for local authorities to conduct a review of the effectiveness of its internal audit at least once each year. This review is intended to provide members with a basis for determining the extent to which reliance can be placed on the internal audit opinion.

## **2.0 RECOMMENDATIONS: That the Board notes and approves:**

- (1) The Head of Internal Audit's opinion on the Council's framework of governance, risk management and control;**
- (2) The summary of work that supports the opinion;**
- (3) The statement on conformance with the Public Sector Internal Audit Standards;**
- (4) The outcomes from the Internal Audit Quality Assurance and Improvement Programme;**
- (5) The findings of the annual review of the effectiveness of internal audit.**

### **3.0 SUPPORTING INFORMATION**

#### **Annual Opinion on the Council's framework of governance, risk management and control**

- 3.1 Internal audit work completed during the 2014/15 financial year was carried out in accordance with the Internal Audit plan, which was approved by the Business Efficiency Board on 12 March 2014. The plan was designed in such a way to allow Internal Audit to form an overall opinion on the Council's governance, risk management and control processes.
- 3.2 In providing an overall opinion it should be noted that assurance can never be absolute. Internal Audit can only provide reasonable assurance that there are no major weaknesses in the areas reviewed. In arriving at an opinion consideration is given to:
- The findings from the audit work undertaken in the year;
  - The amount of audit work undertaken compared with work planned;
  - The results of follow-up action in respect of previous audit work;
  - Whether or not any significant recommendations have not been accepted by management and the consequent risks;
  - The extent to which resource constraints prevent Internal Audit from providing assurance over all key risks faced by the Council.
- 3.3 On the basis of audit work undertaken during the financial year, it is the opinion of the Head of Internal Audit that the Council continues to maintain an adequate framework of governance, risk management and control.
- 3.4 In the course of its work Internal Audit has reported on areas where the Council's governance, risk management and control could be strengthened. The actions that management has agreed to take in response to these issues will, if implemented satisfactorily, resolve them in an appropriate manner.
- 3.5 There are no outstanding issues from the work of Internal Audit that need be disclosed in the 2014/15 Annual Governance Statement.

#### **Summary of work supporting the Annual Opinion**

- 3.6 The 2014/15 Internal Audit Plan comprised 1,138 audit days based on an establishment of 6.2 FTE auditors. By year-end Internal Audit had delivered 1,060 audit days (93.1% of the total planned days for the year). The shortfall in the number of audit days achieved was a result of a maternity absence.

- 3.7 The reduction in available resources was managed by prioritising audit coverage and some planned work being deferred to the 2015/16 financial year.
- 3.8 The level of audit coverage achieved during the year is considered sufficient and wide-ranging to ensure that a confident and evidence-based annual opinion can be provided.
- 3.9 A summary of the audit reviews finalised during the year is provided in Appendix 1. Each audit is graded in terms of how well risks are managed in the area under review. Three different assurance levels are used: substantial, adequate and limited.
- 3.10 44 audit reports were finalised and reported to the Board:
- 26 areas received substantial assurance opinions;
  - 16 areas received adequate assurance opinions;
  - Two audits received limited assurance opinions.
- 3.11 17 'follow-up' audits were completed and are listed in Appendix 2. These audits are graded in terms of the progress made by management in addressing the issues raised in the original audit report:
- 12 areas received substantial assurance opinions;
  - Four areas received adequate assurance opinions;
  - One area received a limited assurance opinion.

#### **Statement on conformance with the Public Sector Internal Audit Standards**

- 3.12 A common set of Public Sector Internal Audit Standards (PSIAS) was introduced in April 2013. The standards apply to all public sector internal audit providers.
- 3.13 On the basis of a self-assessment completed in 2014, the Council's internal audit arrangements are considered to be substantially compliant with PSIAS. An action plan was agreed and implemented to address those areas where compliance could be strengthened further.
- 3.14 It is a requirement that each internal audit provider is externally assessed against the standards at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.
- 3.15 At its meeting on 11 June 2014 the Business Efficiency Board agreed to the principle that the external assessment would be undertaken through a peer review process facilitated through the North West Chief Audit Executives' Group (NWCAEG).
- 3.16 A methodology for undertaking the external assessment is currently being developed through a sub-group of NWCAEG. The methodology will be piloted in the autumn with a view to the external assessments

being carried out at the member authorities over the following 18 months.

### **Internal Audit Quality Assurance and Improvement Programme**

- 3.17 It is a requirement of PSIAS that the annual report provides a commentary on the results of the internal audit Quality Assurance and Improvement Programme (QAIP). The purpose of a QAIP is to enable an evaluation of the internal audit activity's conformance with professional standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 3.18 The key developments arising from the QAIP in 2014/15 are summarised below:
- Terms of Reference are now issued for all audits setting out the agreed scope, objectives and timescales for each review.
  - A revised and consistent audit methodology has been agreed and implemented.
  - Audit file review procedures have been strengthened.
- 3.19 In 2015/16 a further self-assessment against the PSIAS and the accompanying Local Government Application Note will be undertaken in preparation for the five-yearly external assessment.

### **Annual review of the effectiveness of internal audit**

- 3.20 The Accounts and Audit Regulations 2011 provide a requirement for local authorities to conduct a review of the effectiveness of its internal audit arrangements which should be completed at least once each year.
- 3.21 The Operational Director – Finance has reviewed the Council's internal audit arrangements and considers them to be effective and fit for purpose. The following evidence supports this conclusion:
- The Council has designated the Business Efficiency Board as its Audit Committee. The Board:
    - Approves the Internal Audit plan;
    - Receives quarterly progress reports against the Audit Plan and the Annual Internal Audit Report;
    - Provides robust challenge on issues identified through the work of Internal Audit and seeks explanations from officers, when considered necessary, on risk and control issues.
  - The Council's internal audit arrangements substantially comply with the PSIAS and the CIPFA Statement on the role of the Head of Internal Audit in public service organisations.

- All employees within the Internal Audit team hold a recognised accountancy and / or internal audit qualification.
- The results of Internal Audit's QAIP demonstrate that the function operates in an efficient and effective manner and seeks continuous improvement.
- Internal Audit invites feedback on the quality of service provided by issuing a 'satisfaction questionnaire' at the end of each audit. The responses received from the questionnaires issued in 2014/15 again demonstrated a high level of client satisfaction with the audit service provided.

#### **4.0 POLICY, FINANCIAL AND OTHER IMPLICATIONS**

- 4.1 Under Regulation 6 of the Accounts & Audit Regulations 2011, the Council 'must 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'. This responsibility is delegated to the Operational Director – Finance.
- 4.2 The Head of Internal Audit's opinion on the Council's framework of governance, risk management and control is one of the key sources of assurance that supports the Council's Annual Governance Statement.
- 4.3 The internal audit work carried out during the year provides assurance that the Council's main financial systems are operating effectively.

#### **5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

- 5.1 The Public Sector Internal Audit Standards define internal auditing as being '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'.
- 5.2 Internal Audit therefore supports the Council in achieving all the aims and objectives set out in the Sustainable Community Strategy and the Corporate Plan.

#### **6.0 RISK ANALYSIS**

- 6.1 The work of Internal Audit is part of the overall framework that provides assurance that significant risks to the achievement of the Council's objectives are being managed effectively.

#### **7.0 EQUALITY AND DIVERSITY ISSUES**

- 7.1 None arising directly from this report.

**8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

<u>Document</u>	<u>Place of Inspection</u>	<u>Contact</u>
Internal Audit Plan 2014/15	1 <sup>st</sup> Floor, Kingsway House, Kingsway, Widnes	Merv Murphy
Internal Audit reports		
Public Sector Internal Audit Standards 2013		
Local Government Application Note for the UK Public Sector Internal Audit Standards		

Internal Audit reports issued in 2014/15

Audit Area		Level of Assurance		
		Substantial	Adequate	Limited
<b>Children &amp; Enterprise Directorate</b>				
1.	St. Edward's Catholic Primary School			
2.	St. Martin's Catholic Primary School			
3.	Oakfield Primary School			
4.	St. Bede's RC Junior School			
5.	St Bede's RC Infant School			
6.	Weston Primary School			
7.	St. Michael's RC Primary School			
8.	St Gerard's RC Primary & Nursery School			
9.	Windmill Hill Primary School			
10.	Adoption Reform Grant			
11.	DWP Work Programme – Information Security			
12.	Hill View Primary School			
13.	Victoria Road Primary School			
14.	Halton People Into Jobs			
15.	Lunts Heath Primary School			
16.	St John Fisher RC Primary School			
17.	Troubled Families			
18.	KS3 & KS4 Provision for Excluded Pupils			
19.	Expansion of Nursery Provision			

## Appendix 1

Audit Area		Level of Assurance		
		Substantial	Adequate	Limited
<b>Communities Directorate</b>				
20.	Care Assessments			
21.	Mayrise – Open Spaces System			
22.	Bredon Short Stay Residential Care			
23.	Carers' Breaks			
24.	Complex Care Pool Budget			
<b>Policy &amp; Resources Directorate</b>				
25.	Imprest Accounts			
26.	NNDR			
27.	Accounts Payable			
28.	Budget Setting & Budgetary Control			
29.	Fixed Assets			
30.	Accounts Receivable			
31.	Pre-Employment Screening			
32.	Sickness Management			
33.	Mersey Gateway Land Acquisitions			
34.	Discretionary Housing Payments			
35.	Carbon Reduction Commitment			
36.	Planning Applications			
37.	Appointeeship & Deputyship Scheme			
38.	Local Pinch Point Grant			
39.	Local Transport Fund Grant			



## Appendix 1

Audit Area		Level of Assurance		
		Substantial	Adequate	Limited
40.	Highways Inspections & Repairs			
41.	Income Control			
42.	Accounting Journal Transfers			
43.	BACS Accreditation			
44.	Loans & Investments			
<b>Total</b>		<b>26</b>	<b>16</b>	<b>2</b>

### Key

Assurance Opinion	Explanation
● Limited	A number of key risks are not managed effectively. The control systems in operation are in need of significant improvement.
● Adequate	The control systems in operation are generally sound. However, opportunities exist to improve the management of some risks.
● Substantial	There is a sound system of control in operation to manage risks effectively.

**Internal Audit 'follow up' reviews - 2014/15**

Audit Area		Level of Assurance		
		Substantial	Adequate	Limited
<b>Children &amp; Enterprise Directorate</b>				
1.	Birchfield Nursery			
2.	St Mary's CE Primary School			
3.	St Chad's Catholic & Church of England High School			
4.	Brookfields Special School			
5.	The Brow Community Primary School			
6.	Ditton Primary School			
7.	Libraries and Bibliographical Services			
8.	Weston Point Primary School			
9.	The Grange School			
10.	Spinney Avenue Primary School			
11.	Fairfield Primary School			
12.	Out of School Clubs			
<b>Communities Directorate</b>				
13.	Social Care Financial Assessments and Charging			
14.	Reablement			
15.	Halton Supported Housing Network			
<b>Policy &amp; Resources Directorate</b>				
16.	Agile working			
17.	Local Land Charges			
<b>Total</b>		<b>12</b>	<b>4</b>	<b>1</b>

**Key**

Assurance Rating	Explanation
● Limited	Little progress made in implementing the agreed recommendations.
● Adequate	Good progress made in implementing the agreed recommendations.
● Substantial	Substantial progress made in implementing the agreed recommendations.