

South Lakeland District Council
Audit Committee
21st July 2016
Internal Audit Annual Report 2015/16

PORTFOLIO:	Not applicable
REPORT FROM:	Emma Toyne, Audit Manager (Cumbria Shared Internal Audit Service)
REPORT AUTHORS:	Emma Toyne, Audit Manager (Cumbria Shared Internal Audit Service)
WARDS:	Corporate Issue
KEY DECISION NO:	Not applicable

1.0 EXPECTED OUTCOME

- 1.1. This report provides a summary of the outcomes of the work of the internal audit provided by the Cumbria Shared Internal Audit Service for South Lakeland District Council for 2015/16 and includes the Audit Manager's opinion on the effectiveness of the Council's arrangements for risk management, governance and internal control in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS).

2.0 RECOMMENDATION

2.1 Members of the Audit Committee are asked to note:-

- The progress achieved in 2015/16 in delivering the Audit Plan and the outcomes of completed audit reviews set out in **Appendix 1**.
- The Audit Manager's opinion of reasonable assurance on the Council's overall systems of governance, risk management and internal control for the year ended 31st March 2016.
- The Audit Manager's declaration of Internal Audit independence as required by the mandatory PSIAS.
- The Audit Manager's declaration of conformance with the mandatory PSIAS.
- The outcomes of the quality assurance and improvement programme set out in Appendix 3.
- The attached audit reports at Appendix 4.

3.0 BACKGROUND AND PROPOSALS

- 3.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act. The Accounts and Audit Regulations 2015 require that the Council undertakes an effective Internal Audit to evaluate the effectiveness of its risk management, internal control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS).
- 3.2 Internal Audit is responsible for providing independent assurance to the Council's senior management and to the Audit Committee on the systems of governance, risk management and internal control.
- 3.3 It is management's responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and that outcomes are achieved. Management is responsible for the system of internal control and should set in place policies and procedures to ensure that controls are operating effectively.

3. INTERNAL AUDIT OPINION

- 3.1. The purpose of this report is to give my opinion as the Head of Internal Audit for South Lakeland District Council on the adequacy and effectiveness of the Council's systems of risk management, governance and internal control from the work undertaken by Internal Audit for the year ended 31st March 2016.
- 3.2. This report is a key contributor to the Council's Annual Governance Statement.
- 3.3. In giving this opinion, it should be noted that assurance can never be absolute and it is not possible to give complete assurance that there are no major control weaknesses. My opinion is based on the work undertaken by Internal Audit during the year, including the outcomes of any follow up work undertaken.
- 3.4. I am satisfied that sufficient internal audit work has been undertaken to allow me to give a conclusion on the adequacy and effectiveness of risk management, governance and internal control.
- 3.5 Overall, **62%** of risk based audits completed in the year have resulted in a reasonable or substantial assurance. This is a reduction on the previous year outcomes where 82% of risk based audits received reasonable or substantial assurance. The lower level of assurance is in my opinion a direct result of the continued development of the risk based audit approach introduced in 2014/15 as required by the Public Sector Internal Audit Standards (PSIAS). The risk based approach to audit planning focusses internal audit resource at areas of known risk within the Council thereby increasing the possibility of lower levels of assurance. In addition risk based auditing requires audit opinions to cover the wider strategic management and governance arrangements within the systems being audited. These have not traditionally been covered in previous audit approaches.
- 3.6 My opinion takes into account the outcomes of all audit work together with the management responses of the Council which I consider to have been appropriate and demonstrate the Council's commitment to addressing the issues raised.

- 3.7 I can also report that there has been no threat to the independence of internal audit that would impact on the provision of my annual opinion statement.
- 3.8 My opinion is that I can provide **Reasonable** assurance over the Council's the systems of governance, risk management and internal control.

Internal audit coverage

- 3.9 A total of 13 risk based reviews were carried out during 2015/16 and the outcomes were as follows:

Assurance	Total	%
Substantial	1	8
Reasonable	7	54
Partial	5	38
Total with assurance	13	100
N/A	2	

- 3.10 **Appendix 1** shows the individual assurance opinions against each audit area
- 3.11 There was one agreed in-year change to the Audit Plan. The audit of procurement was removed at the request of the S151 Officer due to SLDC staff resource required for the audit being utilised on procurement exercises. An audit of procurement was included in the 2014/15 audit plan but was replaced with an audit of Counter Fraud Arrangements as this was deemed by senior management as a higher risk which emerged in year.

4 INTERNAL AUDIT PERFORMANCE

Completion of the Internal Audit Plan 2015/16

- 4.1 Of the 15 reviews delivered in the year; all were delivered to the quality standard adopted by the Shared Internal Audit Service. **Appendix 1** provides the final position of the Audit Plan for 2015/16.
- 4.2 **Appendix 2** summarises the year end performance against the contract performance measures.
- 4.3 **Appendix 3** details the outcome of the Quality Assurance and Improvement Programme.

5 STATEMENT OF CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS

5.1 Internal audit conducts all its work using a risk based audit methodology which has been designed to ensure conformance with the Public Sector Internal Audit Standards. I can confirm that all work has been carried out in accordance with these Standards.

6 AUDIT REPORTS COMPLETED IN THE PERIOD

6.1 Appendix 4 contains the four audit reports completed in the period:

- Housing Standards
- Bereavement Services
- Leisure Services
- Housing Benefits

7 SUMMARY AND CONCLUSION

7.1 Internal audit work has been carried out in accordance with the mandatory standards for internal audit.

7.2 The work of internal audit is considered to be sufficient to provide an overall opinion on the systems of governance, risk management and internal control.

7.3 There have been no threats to internal audit independence that would impact on the provision of an annual opinion statement.

7.4 The annual opinion has concluded **reasonable** assurance over the systems of governance, risk management and internal control.

8 ALTERNATIVE OPTIONS

8.1 There are no alternative options; the Accounts and Audit Regulations 2015 require that the Council undertakes an effective Internal Audit to evaluate the effectiveness of its risk management, internal control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS).

9 LINKS TO COUNCIL PRIORITIES

9.1 Internal Audit provides independent assurance on the Council's arrangements for governance, risk management and internal control in support of delivery of the Council's strategic priorities.

10 IMPLICATIONS

10.1 Financial and Resources

There are no direct financial implications to this report.

10.2 Human Resources

10.2.1 There are no direct human resource implications to this report.

10.3 Legal

10.3.1 There are no direct legal implications to this report.

10.4 Social, Economic and Environmental

10.4.1 There are no direct human resource implications to this report.

10.5 Equality and Diversity

10.5.1 There are no direct equality and diversity implications to this report.

10.6 Risk

Risk	Consequence	Controls required
The Council does not comply with legislative requirements as laid out under the Accounts and Audit Regulations 2011	Adverse impact on the Council in respect of conformance with expected auditing standards and on the assurances delivered by external audit regarding adequate and effective internal control arrangements.	A complete and thorough self-assessment undertaken with supporting details to illustrate the effectiveness of Internal Audit against the PSIAS and LGAN requirements.

CONTACT OFFICER

Report Authors: Emma Toyne, Audit Manager

Cumbria Shared Internal Audit Service

APPENDICES ATTACHED TO THIS REPORT

Appendix No.	
1	Audit Plan 2015/16 - final outturn position.
2	Performance Information - final outturn position.
3	Results of the Quality Assurance and Improvement Programme.

BACKGROUND DOCUMENTS AVAILABLE

Name of Background document	Where it is available
Review of the Effectiveness of Internal Audit	

TRACKING INFORMATION

Assistant Director	Portfolio Holder	Solicitor to the Council	SMT	Scrutiny Committee
Executive (Cabinet)	Committee	Council	Section 151 Officer	Monitoring Officer
Human Resource Services Manager	Leader	Ward Councillor(s)		
n/a	n/a	n/a		

APPENDIX 1

South Lakeland District Council

Audit Plan 2015/16

Report Title: Internal Audit Annual Report 2015/16

Purpose of this Appendix: *To inform members of the final delivery position of the Audit Plan 2015/16.*

Directorate	Audit Area	Allocated Days	Status	(Target) Audit Committee	Assurance Evaluation	Comments
Corporate	Use of Agency, Interim & Casual Workers	15	Completed	Apr 16	Reasonable	
Strategic Planning	Housing Standards	15	Completed	July 16	Partial	
Strategic Planning	Homelessness; advice, prevention, hostels and social lettings	15	Completed	Dec 15	Partial	
Neighbourhood Services	Street Scene – Street Cleaning	15	Completed	Dec 15	Reasonable	
Neighbourhood Services	Bereavement Services	10	Completed	July 16	Partial	
Neighbourhood Services	Leisure Services	15	Completed	July 16	Partial	
Resources – Financial Services	Procurement	15	Postponed	(N/A)	N/A	Audit removed from current audit plan at the request of the S151 Officer due to SLDC staff resource required for the audit being utilised on procurement exercises. This audit will not be undertaken by the Shared Internal Audit Service. NB procurement was included in the 2014/15 internal audit plan and replaced with an audit of Counter fraud arrangements at the request of

						management.
Resources – Financial Services	Insurance	10	Completed	Sept 15	Reasonable	
Policy and Performance	Electoral Registration	10	Ongoing	(July 16)	Partial	Draft report issued and included within annual opinion.
Follow Up Audits	Asset Management	5	Completed	Sept 15	Reasonable	
Follow Up Audits	Grounds Maintenance	5	Completed	Sept 15	Reasonable	
Financial System Reviews	Main Accounting System and Budgetary Control	20	Ongoing	(July 16)	Reasonable	Draft report issued and included within annual opinion.
	Treasury Management	15	Completed	Apr 16	Substantial	
	Housing Benefits	25	Completed	July 16	Reasonable	
Governance	Corporate Governance – compliance with Local Code	15	Completed	July 16	N/A	Internal audit provided comments on the annual governance statement before it was presented to members.
Computer Audit	Digital Platform Project	15	Completed	Apr 16	N/A	6 days used to complete the work. 9 days unused (removed from the plan).
	Audit planning and reporting	25	Completed	July 16	N/A	Work undertaken on an on-going basis as the contract progresses.
Audit Management Advice & Guidance	Contingency	10	Completed	-	N/A	
	Total Audit Days	255				
	<i>Less planned days not used:</i>					
	<i>Procurement</i>	<i>(9)</i>				
	<i>Digital Platform project</i>	<i>(9)</i>				
	Revised planned audit days	237				

APPENDIX 2

Report Title: Internal Audit Annual Report 2015/16

Purpose of this Appendix: *To provide members with the performance outturn information relating to the Internal Audit contract provided by Cumbria Shared Internal Audit Service.*

Performance Measure	Frequency	Target	Performance Outcome
Audit Plan			
Timeliness of Preparation	Annually	Audit Plan should be prepared in time to present to the Audit Committee before the start of the relevant period	The 2015/16 audit plan was prepared in Q4 2014/15. It was approved by the Audit Committee on 23rd April 2015.
Content of audit plan	Annually	Audit plan prepared on risk basis, to cover services over rolling 5-year period.	A risk based audit plan was prepared which conforms to PSIAS. The Senior Management Team was fully consulted upon when formulating the Audit Plan to ensure all areas were considered and key risks included.
Audit Assignments:			
Draft reports to Responsible Officer	Quarterly	Within 20 working days of completion of audit fieldwork	All reports issued within 20 working days of completion of audit fieldwork with the exception of Electoral Registration
Final reports issued	Quarterly	Within 10 working days of receipt of management response	100%
Recommendations:			
Proportion of major and important recommendations acceptable to the audit clients	Quarterly	An average of 80% over a year	Ongoing discussions as part of the audit review process, undertaking of findings meetings and audit close out meetings supports management buy-in of audit findings and resulting recommendations which are then presented in draft audit reports.

Follow up of Recommendations:			
Major recommendations followed up within the period specified in Audit Reports	Quarterly	100%	100 % completed. Management have arrangements in place to monitor and report on the implementation of previous audit recommendations. Internal Audit has also strengthened its formal follow up arrangements in 2015/16; these revised arrangements were reported to the Audit Committee in April 2015.
Major and important recommendations followed up within timescale set out in Quality Plan	Quarterly	95% overall during a year	
Progress against Annual Plan:			
Number of man-days delivered in period expressed as proportion of annual plan	Quarterly	100% by 31 March with an even spread throughout the year	All work was allocated and underway during 2015/16. There was some work in progress at 31st March - this is unavoidable due to the nature of the work, availability of staff and reporting timescales. The December 2015 floods impacted on the delivery of Internal Audit work as the Council requested some work to be rescheduled.
Number of man-days delivered in period analysed by staff grade.	Quarterly	Consistency with staff mix identified in contract	Audit Manager assigned to oversee delivery of the contract. Experienced and knowledgeable principal and senior auditors are utilised to deliver planned audit assignments. The contract benefits from accessing a larger team of experienced and knowledgeable audit staff.
Relationships			

Senior managers' views on quality of audits	Annually	Target of 90% satisfaction with audit work based on results of post audit questionnaire	A Client Evaluation form accompanies all final audit reports. This form is not mandatory for officers to complete and there has been a disappointingly low response rate. Meaningful conclusions on senior managers' views on the quality of audits cannot be drawn from the number of forms returned.
Staffing and training			
Provision of appropriate continuing professional development (CPD) training for internal audit staff	Annually	All staff are appraised annually and appropriate training given. This should include the CPD requirements of any relevant professional body	All staff in the Internal Audit Shared Service receives annual appraisals. The Group Audit Manager is CPFA qualified. The Audit Manager is ACCA qualified. Both adhere to the CPD requirements of their professional bodies.