

Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Finance & Audit Committee
Date: 24 June 2014
Reporting officer: Assistant Director – Corporate Performance
Subject: Annual Internal Audit Report 2014-15

Purpose and summary of report:

To inform Members of the internal audit work completed during 2014-15 and to report the opinion of the Assistant Director – Corporate Performance as Chief Audit Executive on the council's internal control environment to Members.

Recommendations:

Members are requested to:

1. Endorse the work undertaken by the internal audit team during 2014-15 in providing an effective internal audit service to the council.
2. Consider and endorse the opinion on the council's internal control environment provided by the Assistant Director – Corporate Performance.

1. Introduction

1.1 Background to Internal Audit

- 1.1.1 The Accounts and Audit Regulations 2015 require *“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.”* For local government, the Public Sector Internal Audit Standards (PSIAS) are supplemented as proper practice by CIPFA's Local Government Application Note to the Standards (LGAN). The Standards and LGAN require Internal Audit to report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. The PSIAS also require the Chief Audit Executive to *“deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.”*
- 1.1.2 The purpose of this report therefore, is to inform members of the annual opinion by the Assistant Director – Corporate Performance on the overall adequacy and effectiveness of the council's internal control environment and to provide a summary of the Internal Audit work completed to support that opinion.

2. Opinion of the Assistant Director – Corporate Performance on the council’s internal control environment

In my capacity as the Chief Audit Executive, with responsibility for the provision of Internal Audit Services to the council, it is my opinion that Gravesham Borough Council’s system of internal control adequately contributes to the proper, economic, efficient and effective use of resources in achieving the council’s objectives. This opinion is based on the work of the Internal Audit service during 2014-15.

Whilst it has been identified that the authority has mainly established adequate internal controls within the areas subject to internal audit review during 2014-15, there are areas where compliance with existing controls should be enhanced or strengthened or where additional controls should be introduced to reduce the risk of loss to the authority. Where such findings have been made by internal audit, recommendations have been made to management to improve the controls within the systems and processes they operate. The results of all audit work completed are reported to the Finance & Audit Committee in accordance with the Internal Audit Charter.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

3. Staffing

3.1 Internal Audit staff establishment

- 3.1.1 The Internal Audit Team report to the Assistant Director – Corporate Performance and consists of the Audit & Assurance Manager, Internal Auditor and Trainee Internal Auditor. In October 2014 the Trainee Internal Auditor left the council’s employment and a new employee was recruited to the post from January 2015.
- 3.1.2 Since December 2010 the Audit Manager has had operational management responsibility for the Internal Audit teams at Gravesham and Tonbridge & Malling Borough Council and splits her time equally between the two councils.
- 3.1.3 In 2015-16 the council ended the shared management arrangement with Tonbridge & Malling Borough Council and will be introducing a partnership with Medway Council; this change is detailed in a specific report elsewhere on the Finance & Audit Committee Agenda.

3.2 Net staff out-turn

- 3.2.1 Net staff resources available for the year (as detailed at appendix two) amounted to 697 days, a small increase on the net resources available in 2013-14 (675 days). Both years out-turns are below the equivalent of the full establishment (759 days) due to staffing changes experienced in both years.
- 3.2.2 The team has recorded two days of sickness absence in the year, including time taken by officers to attend medical appointments and remains well below the council average.

4. Details of audit work completed to support the opinion on the internal control environment

4.1 Annual audit plan

4.1.1 The Internal Audit Plan for 2014-15 was presented to Management Team on 5 March 2014 and was approved by the Finance & Audit Committee on 25 March 2014. Due to the vacancy arising within the Internal Audit Team during the year, this plan was revised and approved by the Finance & Audit Committee on 13 January 2015 (see appendix Three). Both the original and revised plans set out the proposed work of the Internal Audit team for the year which can be summarised into two key work types:

- Assurance work – this relates to audit work which informs the opinion of the control environment given to the Committee by the Assistant Director – Corporate Performance as part of the Annual Internal Audit Report. This work focuses on planned audit reviews of key financial systems, other financial systems, operational audits and control environment reviews and also picks up on the follow up of audit recommendations made.
- Consultancy work – this relates to Internal Audit team members' involvement in corporate and other known projects, requests received by the team for consultancy or responsive work, advice or information and involvement in work conducted by the Corporate Fraud team.

4.1.2 The proportion of the revised annual audit plan completed during the year showed a decrease on the team's performance in 2013-14 due to the staffing changes and delays experienced in the recruitment process. (100% achieved in 2013-14).

4.2 Assurance work

4.2.1 The Internal Audit team has primarily focused on assurance work. Appendix two reports that a total of 274 audit days have been spent on the completion of assurance work in 2014-15. This included days allocated to finalising audits commenced during the 2013-14 financial year. Further details of the planned audit work completed during the year are shown in appendix five.

4.2.2 The team made 67 audit recommendations from assurance work finalised in 2014-15 demonstrating that internal audit continues to make a significant number of recommendations for change within the organisation as a contribution to improving the internal control arrangements of the council. It is also important to recognise that the number of recommendations made does not include all system and procedural enhancements implemented during the course of audits as a direct result of the audit process or recommendations coming from consultancy work undertaken by the team.

4.3 Consultancy work

4.3.1 The Internal Audit team spent a total of 36 days on consultancy work during 2014-15.

4.3.2 *Corporate projects and other project & responsive work*

4.3.3 Internal Audit team members have provided support to a number of key projects in the year, including attendance on corporate working groups focussing on Systems Development and the procurement of new Banking Services. The team also contributed to projects requested by management throughout the year including the introduction of new time recording arrangements for staff following an audit review. Details of project work carried out are provided at Appendix seven of this report.

4.3.4 Project work such as this is an important part of Internal Audit's role in helping management to ensure that the organisation maintains a sound control environment and pursues effective performance management arrangements and value for money opportunities. To this end, Internal Audit will continue to remain responsive to requests from management for such projects to be undertaken.

4.3.5 *Advice & information*

4.3.6 The team offer ad hoc advice and information as and when requested by council officers and responded to 19 requests for such advice during the year. This is considered to be a fundamental service provided by the team, enabling officers to consult with Internal Audit and address control concerns and issues as they arise, helping to maintain the internal control arrangements of the council.

4.4 **Other audit duties**

4.4.1 The time spent on other audit duties was devoted to planning and controlling the work of the section, Internal Audit development, general administration and the provision of support to wider council activities.

4.5 **Training**

4.5.1 The total time spent on formal training throughout the year amounted to 20 days; the majority of this relates to professional training with the Auditor continuing her studies for the IIA Diploma in Internal Audit Practice, and the new Trainee Internal Auditor has been given a detailed induction to the role.

4.5.2 In addition, members of the team have attended various training events during the year, including Time Management and Communication Skills.

4.5.3 All members of the team attended the annual Kent Audit Conference in October 2014. The main purpose of the event was to bring together public sector audit staff within Kent to discuss current audit issues, provide networking opportunities and encouraged joint-working and information-sharing.

4.5.4 In addition to formal training, the Assistant Director – Corporate Performance and the Audit & Assurance Manager have continued to provide each team member with specific training during the course of each audit undertaken in response to each auditor's particular needs. It is considered that this approach has been effective in practice and has contributed to the continuation of the quality of audit reviews carried out by the team.

5. **Internal Audit performance during 2014-15**

5.1 **Performance measures**

5.1.1 The Internal Audit team is measured against a set of seven performance measures which are intended to assess the effectiveness and efficiency of the team in achieving a quality Internal Audit Service. For 2014-15 the team has achieved the target set against six of the seven indicators measured. Actual performance of the team against these measures is provided for Members information at appendix six.

5.2 **Effectiveness of Internal Audit**

5.2.1 In previous years the Accounts & Audit Regulations have required an authority to conduct an Annual Review of the Effectiveness of Internal Audit; this has been presented to the Finance & Audit Committee alongside the Annual Internal Audit Report in June of each year.

5.2.2 The 2015 Accounts & Audit Regulations no longer include this requirement. Instead, the Public Sector Internal Audit Standards require Internal Audit teams to have an external assessment of their compliance with the Standards every five years. The council are anticipating that an external body will be instructed to conduct an assessment of the Gravesham Internal Audit team in the 2016-17 financial year; the results of this assessment will be presented to the Finance & Audit Committee.

6. Summary

- 6.1 The team has provided the council with an effective Internal Audit service during the year and responded well to the evolving needs of the council. The work of the team during the year has been appropriately managed to ensure that the limited resources of the team are used effectively and focused on the areas that will have most impact. The team have played a key role in maintaining the governance and internal control arrangements of the council whilst maintaining professional and productive relationships with clients.
- 6.2 Individual team members continue to be exposed to a variety of work requests and have responded enthusiastically and positively to this whilst ensuring that a high standard of audit work is completed by the team. This has enabled the Assistant Director – Corporate Performance to deliver the opinion that Gravesham Borough Council's system of internal control makes a positive contribution to the proper, economic, efficient and effective use of resources in achieving the council's objectives.
- 6.3 During the forthcoming year the team will continue to develop internal working practices as necessary and remain flexible to respond to the needs of the council.

7. Background papers

- 7.1 Background papers to this report are held within Internal Audit; please contact the council's Committee & Elections team should you wish to inspect these.

<p>Legal</p>	<p>Section 151 of the Local Government Act 1972 require “A <i>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.</i>” Proper practice has been defined as that contained within the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note to the Public Sector Internal Audit Standards.</p>		
<p>Finance and Value for Money</p>	<p>An adequate and effective internal audit function provides the council with assurance on the proper, economic, efficient and effective use of council resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the financial statements of the council.</p>		
<p>Risk Assessment</p>	<p>This report, summarising the work of the Internal Audit function, provides a key source of assurance for the council on the adequacy and effectiveness of its internal control arrangements.</p>		
<p>Equality Impact Assessment</p>	<p>Screening for Equality Impacts</p>		
	<p>Question</p>	<p>Answer</p>	<p>Explanation</p>
	<p>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?</p>	<p>No</p>	
	<p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?</p>	<p>No</p>	
	<p>c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?</p>		
<p><i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i></p>			
<p>Corporate Business Plan</p>	<p>The work of Internal Audit contributes to the delivery of Priority 5: Managing the council’s business responsibly.</p>		
<p>Crime and Disorder</p>	<p>Internal Audit provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisations’ objectives. The work of Internal Audit combined with a sound internal control environment has a positive contribution to community safety in its broadest sense.</p>		