

Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Finance & Audit Committee

Date: 18 November 2015

Reporting officer: Assistant Director – Corporate Performance
Audit & Assurance Manager

Subject: Half Year Internal Audit Report 2015-16

Purpose and summary of report:

To inform Members of the internal audit work completed during the six months to 30 September 2015.

Recommendations:

Members are requested to:

1. Endorse the work undertaken by the internal audit team during the first half of the 2015-16 financial year in providing an effective internal audit service to the council.

1. Background to Internal Audit

- 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).
- 1.2 The PSIAS 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.

2. Staffing

2.1 Internal Audit Staff Establishment

- 2.1.1 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.

- 2.1.2 As reported to the Finance & Audit Committee in June 2015, the shared management arrangement for Internal Audit with Tonbridge & Malling Borough Council ceased on 15 May 2015. In addition the shared management arrangement for Fraud with Tonbridge & Malling Borough Council ceased on 19 June 2015. In its place, a shared management arrangement was implemented with Medway Council for Internal Audit & Fraud from 1 June 2015. Since then the Audit & Assurance Manager has had operational management responsibility for the Internal Audit and Fraud teams at Gravesham and Medway Council and spends 60% of her time at Medway and 40% at Gravesham.
- 2.1.3 A project group has been established to implement one combined audit and fraud team to support both authorities from April 2016.

2.2 Net Staff Out-turn

- 2.2.1 Net staff resources available for the first six months of the financial year (as detailed at appendix two) amounted to 324 days. The team has recorded no sickness absence in the period.

3. Annual Audit Plan

- 3.1 The Internal Audit Plan for 2015-16 was presented to Management Team on 24 February 2016, was approved by the Finance & Audit Committee 17 March 2015 and is provided at Appendix three. The plan 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.

3.2 Assurance Work

- 3.2.1 The Internal Audit team has primarily focused on assurance work. Appendix two reports that a total of 163 audit days have been spent on the completion of assurance work in the first half of 2015-16. This included days allocated to finalising audits commenced during the 2014-15 financial year. Further details of the planned audit work completed during the year are shown in appendix five. Where an assurance review has been given an audit opinion, the definitions are detailed at Appendix four of this report.
- 3.2.2 The team made 17 audit recommendations from assurance work finalised in the first half of 2015-16. The number and priority of recommendations agreed with management for work finalised is provided for Members information at Appendix Five.
- 3.2.3 Internal Audit has arrangements in place to follow-up on agreed recommendations to ensure positive action has been taken by management in

response to audit reports. Details of all recommendations along with management responses are reported to the council's Management Team on a quarterly basis. Appendix Eight to this report provides Members with the proportion of recommendations of each priority where a positive management response was received on follow-up.

3.3 Consultancy Work

3.3.1 The Internal Audit team spent a total of 10 days on consultancy work during the first half of 2015-16.

3.3.2 Corporate projects and other project & responsive work

3.3.3 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 Woodville. The team also contributed to projects requested by management throughout the year including accuracy checks relating to the election verification and support in the development of performance monitoring arrangements in the council's new Corporate Plan. Details of project work carried out are provided at Appendix seven of this report.

3.3.4 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.

3.3.5 Advice and information

3.3.6 The team offer ad hoc advice and information as and when requested by council officers and responded to eight 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.

3.3.7 Counter- fraud activity

3.3.8 The Internal Audit team spent 15 days in the first half of the year on counter-fraud work; the majority of this relates to the specific Prevention of Right To Buy Fraud audit review. The remainder of the time spent related to co-ordinating and monitoring the council's approach to investigating matches received through the National Fraud Initiative (NFI) exercises.

3.4 Other Audit Duties

3.4.1 The time spent on other audit duties was devoted to planning and controlling the work of the section, Internal Audit development and general administration. In addition, this includes time spent on the development of the new shared service with Medway including introduction and consultation meetings with staff.

3.5 Training

3.5.1 The total time spent on formal training in the first half of the year amounted to 21 days. Of this, 12 days relates to professional qualification training; with the

Auditor continuing her studies and the Trainee Auditor beginning studies for the IIA professional qualifications.

- 3.5.2 In addition members of the team attended other council training sessions including time management, data protection, equality and diversity, health and safety, customer service and communication skills. A further two days were spent on training related to the audit role with attendance of all members of the team to the Kent Audit Group Conference 2015 which included sessions on data analysis, risk management and negotiation skills.
- 3.5.3 In addition to formal training, the Assistant Director – Corporate Performance and the Audit 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. This included managing and supporting the Trainee Internal Auditor through the new staff probationary period, which she successfully completed in July 2015. 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.

4. Internal Audit performance during the first half of 2015-16

4.1 Performance Measures

- 4.1.1 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. An update on performance against these measures is provided for Members information at appendix six.
- 4.1.2 As reported elsewhere on this Agenda, it will be necessary to revise the performance monitoring arrangements in place and for a new suite of consistent performance measures to be in place for the new shared service from April 2016.
- 4.1.3 *Delivery of the annual audit plan*
- 4.1.4 Members will note that the proportion of the plan that has been completed during the first half of the financial year is less than has been delivered at the same point in previous years, despite auditor productivity remaining high (as demonstrated by performance measure one). This is due to a range of factors, including;
 - 4.1.4.1 The implementation of the shared service has had a significant impact on the availability and resources of the Audit & Assurance Manager. This officer has focussed on working with colleagues to develop the necessary governance, working practices, human resources and IT arrangements required for the shared service to be operational from April 2016, including the transfer of Housing Benefit Investigations to the Department for Work and Pensions Single Fraud Investigation Service.
 - 4.1.4.2 As a result of reduced availability of the Audit & Assurance Manager, the Auditor has taken on some elements of supervisory work to support the Trainee Internal Auditor. This was not a planned development and as such has reduced the Auditor's level of resources to deliver audit work compared to the audit plan.
 - 4.1.4.3 The development of the shared service has required the internal audit staff to attend a variety of meetings and consultation events relating to

the TUPE transfer and the new working arrangements being introduced, reducing available resources for audit work.

4.1.4.4 The Trainee Auditor has progressed very well and has begun professional qualification training; it was not anticipated that this would be the case in the 2015-16 financial year. As such the resource budget on which the audit plan was based did not reflect the time required to attend training and exams, meaning this officer has less resources to deliver audit work than planned.

4.1.4.5 It is considered likely that the team will need to revise the Annual Audit Plan for 2015-16 to reflect these reductions in resources and the reduction in likely output from the team in the year. A revised plan will be presented to the Finance & Audit Committee for approval in January 2016. In the meantime, the team will continue to work on the agreed audit plan in risk order, thereby ensuring that available resources continue to be directed to the highest areas of risk.

5. Partnership development

5.1 As reported to the Members at previous meetings and elsewhere on this agenda, the council's Internal Audit and Counter-Fraud staff will transfer under TUPE to Medway Council on 1 December 2015. From that date to the end of the current financial year, it has been agreed that the same resources in the existing team will continue to be used to deliver the Gravesham audit plan.

6. Background papers

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

IMPLICATIONS

APPENDIX 1

<p>Legal</p>	<p>Section 151 of the Local Government Act 1972 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.” 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 Objective 4: A Sound and Self-sufficient Council.</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</p>		

IMPLICATIONS**APPENDIX 1**

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.