Appendix A

MELTON BOROUGH COUNCIL

INTERNAL AUDIT ANNUAL REPORT

2014/15

Date: 29th June 2015

1. Background

1.1 The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide an annual Internal Audit opinion and report that can be used by the organisation to inform its governance statement. The Standards specify that the report must contain:

- an Internal Audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
- a summary of the audit work from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
- a statement on the extent of conformance with the Standards including progress against the improvement plan resulting from any external assessments.

2. Head of Internal Audit Opinion 2014/15

2.1 This report provides a summary of the work carried out by the Internal Audit service during 2014/15 and the results of these assignments. Based upon the work undertaken by Internal Audit during the year, the Head of Internal Audit's overall opinion on the Council's system of internal control is that:

> Sufficient Assurance can be given that there is generally a sound system of internal control, designed to meet the organisation's objectives and that controls are generally operating effectively in practice. The level of assurance, therefore, remains at a consistent level from 2013/14.
>
> Controls relating to those key financial systems which were reviewed during the year were concluded to be generally at a level of Sufficient Assurance.
>
> The overall proportion of audit reports giving Substantial Assurance has reduced in comparison with 2013/14, as shown in Table 1. The proportion of reports providing Limited Assurance has remained generally consistent with 2013/14.
>
> The implementation of audit recommendations during the year has generally been strong, with 94% of actions from 2014/15 reports which were due for implementation being completed in accordance with the agreed timescales.
>
> No systems of controls can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

The basis for this opinion is derived from an assessment of the range of individual opinions arising from assignments from the risk-based Internal Audit plan that have been undertaken throughout the year. This assessment has taken account of the

relative materiality of these areas and management's progress in respect of addressing any control weaknesses. A summary of Audit Opinions is shown in Table 1:

Table 1 – Summary of Audit Opinions 2014/15:

Area	Substantial	Sufficient	Limited	No
Financial Systems	1	2	1	0
IT	1	2	0	0
Counter Fraud	0	0	1	0
Service Delivery	0	2	0	0
Governance & Performance	0	4	2	0
Total	**2**	**10**	**4**	**0**
Summary	**12%**	**63%**	**25%**	**0%**
with 13/14 Comparison	**(28%)**	**(44%)**	**(28%)**	**(0%)**

3. Review of Audit Coverage

3.1 Audit Opinion on Individual Audits

The Committee is reminded that the following assurance opinions can be assigned:

Table 2 – Assurance Categories:

Level of Assurance	Definition
Substantial	There is a robust framework of controls making it likely that service objectives will be delivered. Controls are applied continuously and consistently with only infrequent minor lapses.
Sufficient	The control framework includes key controls that promote the delivery of service objectives. Controls are applied but there are lapses and/or inconsistencies.
Limited	There is a risk that objectives will not be achieved due to the absence of key internal controls. There have been significant and extensive breakdowns in the application of key controls.
No	There is an absence of basic controls resulting in inability to deliver service objectives. The fundamental controls are not being operated or complied with.

Audit reports issued in 2014/15, other than those relating to consultancy support, resulted in the provision of one of the above audit opinions. All individual reports represented in this Annual Report are final reports and, as such, the findings have been agreed with management, together with the accompanying action plans.

3.2 Summary of Audit Work

3.2.1 Table 3 details the assurance levels resulting from all audits undertaken in 2014/15 and the date of the Committee meeting at which a summary of the report was presented.

Table 3 – Summary of Audit Opinions 2014/15:

Audit Area	Audit Opinion	Committee Date
Financial		
Online Benefits Tool	Substantial	June 2015
Creditors	Sufficient	June 2015
Helping Clients Manage Debt	Limited	November 2014
Key Financial Controls – PWC Assurances	Sufficient	June 2015
IT		
IT System Administration	Sufficient	February 2015
IT Governance	Substantial	February 2015
IT Physical Security	Sufficient	November 2014
Counter Fraud		
Measures to Prevent Employment Related Fraud	Limited	March 2015
Consultancy Support – Fraud Awareness Training	N/A - Consultancy	February 2015
Service Delivery		
Discretionary Housing Payments	Sufficient	September 2014
Civil Emergencies and Standby	Sufficient	September 2014
Vulnerable Clients - Financial Support	N/A - Consultancy	June 2015
Governance & Performance		
Complaints Management	Sufficient	June 2015

Audit Area	Audit Opinion	Committee Date
Disclosure & Barring Service	Limited	September 2014
Freedom of Information	Sufficient	September 2014
Management of Capital Projects	Sufficient	March 2015
Managing ESF Projects	Sufficient	September 2014
Starters & Leavers	Limited	February 2015

3.2.2 Outlined in Appendix 1 is a summary of each of these audits that has been finalised during the year. The Committee should note that the majority of these findings have previously been reported as part of the defined cycle of update reports provided to the Governance Committee.

3.2.3 Where a Limited Assurance opinion has been given, a detailed overview of the findings has been provided to the Committee and hard copies of the reports have been made available to Members. An update on progress made in any areas where Limited Assurance was given, as at the time of reporting, is provided in Appendix 1, where possible. The Internal Audit team continues to monitor implementation of all outstanding actions.

3.3 Implementation of Internal Audit Recommendations

3.3.1 Internal Audit follow up on progress made against all recommendations arising from completed assignments to ensure that they have been fully and promptly implemented. Internal Audit trace follow up action and attend the Council's Management Team meeting on a quarterly basis to provide updates on implementation. The Head of Internal Audit provides a summary at each Governance Committee on the progress made and actions outstanding. Details of the implementation rate for audit recommendations during 2014/15 are provided in Table 4.

Table 4 - Implementation of Audit Recommendations 2014/15:

	Category 'High' recommendations	Category 'Medium' recommendations	Category 'Low' recommendations	Total
Agreed and Implemented	10	18	6	34 (47%)
Agreed and not yet due for implementation	11	12	13	36 (50%)
Agreed and due within last 3 months, but not implemented	0	0	0	0 (0%)
Agreed and due over 3 months ago, but not implemented	0	1	1	2 (3%)
TOTAL	**21**	**31**	**20**	**72 (100%)**

3.3.2 In addition to those actions outstanding from 2014/15 audit reports, a further action remains overdue in relation to an audit report issued in 2013/14. A summary of all overdue recommendations is provided in Table 5:

Table 5 - Summary of Overdue Recommendations as at 31st March 2015

		High		Medium		Low	
Audit Title	**Year reported**	**Over 3 months**	**Under 3 months**	**Over 3 months**	**Under 3 months**	**Over 3 months**	**Under 3 months**
Managing Contracts	2014/15					1	
New Local Tax Arrangements	2014/15			1			
Main Accounting	2013/14	1					
Totals		**1**	**0**	**1**	**0**	**1**	**0**

3.3.3 The level of implementation is reported to the Governance Committee throughout the year. The content of the Progress Reports is also being reviewed for 2015/16 to ensure that these provide members of the Committee with further details on the implementation of actions.

3.4 Internal Audit Contribution

3.4.1 It is important that Internal Audit demonstrates its value to the organisation. The service provides assurance to management and members via its programme of work and also offers support and advice to assist the Council in new areas of work.

3.4.2 Delivery of 2014/15 Audit Plan

The Council commissioned 235 days from the Internal Audit Consortium to deliver the 2014/15 Audit Plan.

The team delivered a total of **267** days to Melton Borough Council during 2014/15. This involved delivery of the current year Audit Plan, client liaison, support, reporting and training for the Governance Committee and the completion of a number of assignments which had not been delivered from the 2013/14 Audit Plan.

The Internal Audit team has delivered **100%** of the assignments within the 2014/15 Audit Plan. Clients requested that fieldwork on two of the assignments within the Plan be delayed until mid-March to avoid the annual billing period, as such this reduced the total delivered as at 31st March 2015. All assignments have since been completed.

3.4.3 Internal Audit Contribution in Wider Areas

Key additional areas of Internal Audit contribution to the Council in 2014/15 are set out in Table 6:

Table 6 – Internal Audit Contribution

Area of Activity	Benefit to the Council
Working proactively to counter fraud and corruption by supporting the National Fraud Initiative exercise and work on the Counter Fraud Strategy and online training package.	Preventing and Detecting fraud and corruption, helping promoting high standards of probity and integrity throughout the Council.
Delivering testing on key controls as requested by External Audit to assist them in forming their opinion on the Annual Accounts.	Reduce audit burden, saving costs.

Area of Activity	Benefit to the Council
Provision of training to members of the Governance Committee.	The Governance Committee is more effective in its role as an assurance provider.
Delivering Fraud Awareness Training Sessions for all staff across the Council.	Provide all staff with an understanding of the risk of fraud, what they should look out for and how they should report any concerns. Thereby, embedding a zero tolerance culture and skills to detect and report fraud.
Providing advice on the development of the Whistleblowing Policy.	To assist the Council in developing a robust policy which will enable staff and external parties to raise concerns in confidence.
Ad hoc advice on the development of the new online self-service systems.	To assist in identifying and highlighting potential risks and control weaknesses in development stages.

4. Performance Indicators

4.1 Internal Audit maintains several key performance indicators (KPIs) to enable ongoing monitoring by the Welland Internal Audit Board and Committees. Outturns against these indicators in relation to work delivered for Melton Borough Council are provided in Table 7:

Table 7 – Internal Audit KPIs 2014/15

Indicator description	Target	Actual
Delivery of the agreed annual Internal Audit Plan – Audit Days	235	267
Delivery of the agreed annual Internal Audit Plan to at least draft report stage by 31st March 2015	90%	84%
Customer Feedback – rating on a scale of 1 to 4 (average) Where: 1 = Poor, 2 = Satisfactory, 3 = Good and 4 = Outstanding	3.6	3.1

5. Professional Standards

5.1 The Public Sector Internal Audit Standards (PSIAS) were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) from April 2013. The standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.

5.2 The objectives of the PSIAS are to:

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK public sector;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

5.3 A detailed self-assessment against the PSIAS has been completed by the Head of Internal Audit, a copy of which is provided in Appendix 2. The outcome of the assessment was that the activities of the Internal Audit service are in general conformance with the Standards.

5.4 The Head of Internal Audit is keen to drive ongoing, continuous development to ensure the value of the service is maximised. One specific area for further development has been identified from the assessment, in relation to reviewing and strengthening the content of the Progress Reports presented to Audit Committees to ensure these fully inform members of the key findings of assignments and the performance of the Council services in implementing the agreed actions arising from the finalised reports.

Appendix 1: Summary of Internal Audit Work Undertaken for 2014/15

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Financial Systems			
Online Benefits Tool	Substantial	Review of the process design, staff training, guidance and communications for the new online benefits processes.	Appropriate measures were in place to ensure that all relevant staff had been trained in the new process. Detailed procedure notes and process maps to describe the new claims process had been documented and were available to all customer service and benefits staff. Training of staff had been conducted by a Benefits Officer in accordance with a training schedule. Controls over the online process for new claims had been considered during the project and applied in practice. Online claims were subject to eligibility checks by a fully trained assessor and claims could not be processed for payment until an assessment has been conducted. It was recommended that a communication plan be developed to ensure that all key internal and external stakeholders are provided with the necessary information, in the correct format, at the most appropriate time and arrangements could be strengthened further by providing better documentary evidence for some aspects of the control framework.
Creditors	Sufficient	Follow up on the recommendations from the report issued by the External Auditors in 2014. Also supported by a review of some of the other key controls within the Creditors system to prevent fraud.	Review identified that appropriate action had been taken to implement the recommendations from the External Audit report; however some further improvements were identified in order to ensure procedures are robust. Internal Audit identified that the new suppliers sampled were not required to provide their bank details on letter headed paper. Issues were also highlighted within a sample of changes made to standing data. The Oracle system could not produce exception reports to highlight changes made to supplier standing data and the Council was in discussions with the software provider to address this. To compensate a spreadsheet was being updated to record details of changes made in the year to date. However, this would be reliant on staff updating the sheet each time a change is made and would not assist management in detecting potential fraudulent changes.

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Helping Clients Manage Debt	Limited	This audit was commissioned to provide assurance that the Council is achieving its ambition to provide a proactive and holistic approach to the recovery of personal debts – and to support clients who had problems in paying their debts.	Review of the arrangements in place identified that these allowed for the effective management of individual categories of debt. The introduction of arrangements to monitor time spent on different aspects of debt recovery should support an informed allocation of resources. A range of initiatives allowed holistic support to be provided to various cohorts of clients. Limited testing confirmed that Council Tax and Sundry Debt Arrears were being reduced while the predicted impact of the Under Occupancy Charge on Rent Arrears has been contained. However, IT systems did not allow for the routine identification of clients with multiple debts that would support a comprehensively proactive debt management strategy. Given the Limited Assurance opinion, a follow up review was undertaken later in the financial year on Vulnerable Clients – Financial Support, see below.
Key Financial Controls – PWC assurance	Sufficient	Testing of the 22 controls specified by the Council's External Auditors (PwC).	Key controls over the administration and management of payroll and housing rents were confirmed as operating effectively. All starters, leavers, employee amendments and payments reviewed by Internal Audit were accurate, timely and appropriately approved in accordance with Council procedures. Rental income was being controlled satisfactorily through regular reconciliations of the housing rents system and appropriate debt recovery procedures. It was highlighted that controls over the administration of Council Tax and NNDR transactions could be further improved to minimise the risk of fraud. The Council had not clearly documented the types of evidence that would be acceptable for granting discounts, exemptions and reliefs. Internal Audit identified that the level of evidence accepted was inconsistent. Whilst approval mechanisms were in place for bad debt writes offs, instances were identified where the value written off was not consistent with the value agreed by Heads of Service. It was confirmed, at the time of testing, that reconciliations to perform this check had not been undertaken for six months.

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
IT			
IT System Administration	Sufficient	Review of arrangements in place to manage the effective administration of the Council's IT network and key system applications, including access rights, system availability and implementation of upgrades and back ups.	Testing confirmed that the Council had put in place a generally sound framework of controls. This included contingency arrangements, satisfactory audit trails of system and network related activities, network access controls, back up procedures and regular network performance monitoring. Testing confirmed a generally satisfactory level of compliance with the identified controls. The audit identified an opportunity to ensure that system administrators fully understood their role, and had the skill sets required to efficiently carry out their duties.
IT Governance	Substantial	Review of the effectiveness of the Council's IT Strategy and governance arrangements and the completeness and communication of the IT policies.	Review concluded that the Council's IT governance arrangements were robust. Clear reporting lines for IT decision making and issue resolution were defined in the Council's IT Strategy and evidence was provided to demonstrate that these were operating effectively. The IT strategy identified the key business drivers and the core strategy for meeting the Council's needs and supporting delivery of corporate objectives. Key performance indicators for IT services were found to be in place and regularly monitored to ensure satisfactory service was being maintained. The Council has a broad, appropriate range of IT policies in place which were reviewed in September 2014 and were subsequently communicated to all employees. Whilst all IT policies had been reviewed and updated, there were some inconsistencies in the way policies had been documented.
IT Physical Security	Sufficient	Review of the physical security of IT assets including server rooms, ICT equipment and data held on removable media.	Review confirmed that controls were in place to ensure security of server rooms, ICT equipment, data held on removable media and outputs from printers. One control weakness was noted in that there was no requirement for new starters to read and sign declarations to state that they had read and would abide by ICT Policies. This has since been addressed.

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Fraud Risks			
Measures to Prevent Employment Related Fraud	Limited	To provide assurance that the Council is effectively managing employee related fraud risks in relation to recruitment and travel and overtime claims by existing staff.	Some key policies, guidance for managers, template forms for recruitment exercises and corporate templates for the recording of working time and claiming of expenses were identified. No evidence of employment related fraud was found; however some of the controls were highlighted as requiring further development. The Council's policy on the claiming of expenses was in draft and required development, approval and communication. It was also highlighted that the Recruitment and Selection Policy required further development and details on responsibilities of recruiting managers. Cases were identified during testing where qualifications, eligibility to work in the UK and gaps in employment were not suitably explored and evidenced during recruitment exercises. It was also recommended that reminders for ongoing checks on eligibility to work in the United Kingdom should be further developed and a process for reviewing outcomes of disclosure checks should be formalised. Implementation of actions arising from this review is due by the end of June 2015 and subject to ongoing Internal Audit review.
Fraud Awareness Training Sessions	N/A	Mandatory training delivered to all staff across the Council following a 'tiered' approach to ensure the content was relevant to the audience and that those staff in high risk services or those responsible for exercising key controls received the most extensive, targeted training.	N/A

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Service Delivery			
Discretionary Housing Payments	Sufficient	To review the Council's expectations of the outcomes that Discretionary Housing Payments (DHP) should deliver and the controls in place to monitor and manage effectiveness of the payments.	The outcomes that the Council seeks to achieve through the award of DHPs had generally been defined and the Council had been successful in bidding for and making effective use of a supplementary funding allocation. Testing confirmed that awards had been made in line with policy and client feedback obtained by the Auditors provided some evidence that payments awarded have supported clients to achieve desired outcomes. Testing highlighted that a significant proportion of payments that had been made under the DHP scheme provided general support for housing costs and lacked a specific, defined outcome. There was no monitoring of individual client outcomes. It was recommended that regular feedback be sought and the effectiveness of the payments be included in performance reporting.
Civil Emergencies & Stand By	Sufficient	Review of procedures in place to enable a timely and effective response in the case of a civil emergency or an incident affecting a Council property.	The Council's Emergency Plan provided a clearly defined response to major incidents and provision for the effective management of such incidents. Information to tenants was in place to minimise unjustified call outs. The guidance for Standby Officers was highlighted as an area requiring further development, including lone-working and the types of incidents and required responses. The procedures to be followed have since been documented.
Vulnerable Clients – Financial Support	N/A	The Internal Audit review of 'Helping Clients Manage Debts' gave a limited assurance over the systems and processes in place to identify and support vulnerable clients in need of financial support. Following this review, the Council had taken steps to identify vulnerable clients with multiple debts. This review was requested to follow up on the progress that the Council had made in	The Council's IT systems restricted the way in which vulnerable clients with multiple debts could be identified - with different systems for each income stream that were not uniquely linked. The reports produced from each system were not in a suitable format to allow the data to be easily analysed and compared. In the longer term, new IT systems should address this issue by having all debts recorded in a central location. In the meantime the Council has had to implement manual processes to identify clients with multiple debts. Despite the limitations of the ICT infrastructure, the Council had been able to undertake manual analysis work to assist in the identification of vulnerable clients and details of debts had begun to be shared with the Supporting

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
		creating a holistic approach.	Leicestershire Families team. In the longer term, the introduction of E-CINS and the Agilisys Digital Platform should improve the Council's ability to identify and manage those clients.
Governance & Performance			
Complaints Management	Sufficient	Review of processes and procedures in place for capturing, investigating and responding to customer complaints.	A three stage process has been designed to handle complaints, which are recorded and monitored centrally on the Council's Customer Relationship Management system. Testing identified some gaps in the records held on complaints and supporting documentation could not be located for one complaint. It was highlighted that complaints had not been consistently investigated by an appropriate person (as per the Complaints Policy) in all cases and acknowledgements were not consistently sent to complainants. Review also highlighted that the Corporate Complaints Policy and internal procedural guidance were out of date and did not reflect current processes or guidance on how to deal with vexatious complaints. Actions to address all issues have been agreed and are due for implementation in 2015.
Disclosure & Barring Service	Limited	Review of the Council's processes and procedures regarding the processing of Disclosure & Barring Service (DBS) checks.	The Council had not adopted a formal policy on the use of Disclosures but had developed a list of posts requiring a Disclosure and a process for keeping that list up to date as new posts are created and the roles of existing posts change. The HR Team acknowledged that the list was out of date and agreed to update the list and make use of the Payroll/HR System to identify and flag posts for which a Disclosure is required. Testing highlighted no failures to seek disclosures and no instances of disclosures being sought inappropriately. However, it was established that arrangements for renewal of taxi drivers' licences did not conform to the recently adopted Hackney Carriage and Private Hire Licensing Policy and that licences had been renewed for drivers who had failed to obtain valid disclosures before the date of their licences' expiry. The key findings were addressed during the course of the audit.

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Freedom of Information (FOI)	Sufficient	To provide assurance that the Council has put in place arrangements to ensure that all FOI requests are dealt with on a timely basis and that requests are met fully, save for the proper interpretation of regulations in respect of exempt information.	Review confirmed that the FOI policy was up to date and staff guidance and a publication scheme were available. It could not be verified, however, that the figures used to monitor performance were complete and accurate due to the absence of effective reconciliations between system data and manual records. System reports had not been designed to monitor the completion of FOI requests or FOI performance - reliance was placed on the manual FOI log. Sample testing provided assurance that FOI requests were being responded to within the legal timescales. However, some delays were noted between FOI requests being received and being logged on the CRM system.
Management of Capital Projects	Sufficient	To provide assurance that the Council has developed appropriate project management arrangements for major capital projects which extend from the initial planning stages to the point at which the success of the scheme is evaluated and reported to those charged with governance.	Review confirmed that the Council had a sound framework of controls designed to mitigate the impact and likelihood of risks associated with the management of capital projects. A Project Management Toolkit was available to all staff and provided clear directive guidance. There were clear monitoring and review arrangements for capital projects through the Programme Board. The quality of the contracts register was highlighted as requiring improvement. It was noted that the format of the register had been updated since a prior audit report (Managing Contacts 2013/14); however data fields still remained incomplete and Internal Audit identified contracts that were not recorded on the register that should have been. Since the audit was delivered, the content of the Council's Contract Register has been subject to further review and update and Internal Audit continue to monitor progress made. In-house training on project management was available, but not mandatory. There were opportunities to improve the awareness of such training and to fully embed project management methodology. From a sample of capital projects, Internal Audit identified instances where Project Managers had not fully complied with the Project Management Toolkit.

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Managing ESF Projects (Me and My Learning)	Sufficient	To provide assurance that the Council has put in place appropriate controls to ensure that European Social Fund (ESF) funding is spent and recorded properly and that agreed outcomes are delivered.	The Council's established framework of financial controls provideD a sound basis for managing and recording the scheme's eligible expenditure. Effective triage arrangements allowed the Triage Advisors and Peer Mentors to identify from all the referrals made, individuals who met prescribed criteria and had the potential to benefit from the multiple interventions assumed in the Council's agreement with the ESF. Sample testing of records relating to clients' progress suggested that the standard of evidence recording and retention was inconsistent. Some areas for improvement in project planning were also highlighted to be noted in future projects. All actions have since been implemented.
Starters & Leavers	Limited	To provide assurance that appropriate processes are in place to communicate starters and leavers to all appropriate personnel and that the actions to be taken are clearly identified and completed in a timely manner.	Robust controls were in place to ensure that employees were added and removed from the payroll and human resources system in a timely manner and starters were provided with the necessary IT and swipe card access. Reliance was placed on line managers informing relevant departments if an individual was to be leaving employment. Whilst a leaver form was available, this control had not been applied consistently. This had led to a number of instances where ID cards were still 'active' despite the owner leaving the organisation. Temporary employees, contractors and visitors are provided with temporary ID cards to enable them to access the Parkside building. The number of active visitor cards was high and Internal Audit identified that many cards could not be located. It was also unclear from records who the last person/department to have the card in their possession would have been. As at March 2015, some key actions had been completed to address high priority actions raised and the implementation of the remaining actions continued to be the subject of regular Internal Audit review, with agreed timescales for completion within six months.

Appendix 2: Self-Assessment against the Public Sector Internal Audit Standards (PSIAS)

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
1000 – Purpose, Authority & Responsibility	1010	Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards in the Internal Audit Charter	✓			The Internal Audit Charter reflects the mandatory nature of the relevant Standards.
1100 – Independence and Objectivity	1100	Organisational Independence	✓			Head of Internal Audit reports directly to the Governance Committee and has unfettered access to the Chief Executive, Chair of the Governance Committee and Section 151 Officer.
	1111	Direct Interaction with the Board	✓			Head of Internal Audit reports directly to the Governance Committee.
	1120	Individual Objectivity	✓			All members of the Internal Audit team are required to complete a Declaration of Interest form at the start of the financial year and any conflicts of interest are avoided in work allocations.
	1130	Impairment to Independence or Objectivity	✓			Approval sought from Governance Committee before undertaking any significant consulting services not already included in Audit Plans.
1200 – Proficiency and Professional Care	1210	Proficiency	✓			Head of Internal Audit is CCAB qualified and all Audit Managers hold professional qualifications and are suitably experienced for the role. Auditor is completing Institute of Internal Audit qualification.
	1220	Due Professional Care	✓			Experienced Audit staff exercise due professional care when planning and undertaking assignments. Scope of assignment is clarified within detailed audit planning record and the limitations to the scope and assurance provided are documented within audit planning records, audit reports and progress reports. All audit planning records are approved by the Head of Internal Audit before work commences.
	1230	Continuing Professional Development	✓			Staff attendance at training and development opportunities. All Audit Managers must satisfy professional body CPD requirements.
1300 – Quality Assurance & Improvement Programme	1310	Requirements of the Quality Assurance and Improvement Programme	✓			External assessment completed in 2013 and annual internal self-assessment conducted by Head of Internal Audit, which is included in the Annual Report.
	1311	Internal Assessments	✓			Ongoing monitoring of performance at monthly individual supervision meetings, team meetings and post audit completion discussions.

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						Customer Satisfaction Questionnaires (CSQs) requested from clients for each assignment and responses are summarised for the Governance Committee. Head of Internal Audit meets with senior management on regular basis and seeks feedback on value of the Internal Audit service and areas for development.
	1312	External Assessments	✓			External assessment conducted in 2013 by independent, professional company to assess against compliance with PSIAS.
	1320	Reporting on Quality Assurance and Improvement Programme	✓			The outcome of the external assessment and progress against the resulting improvement plan were reported to the Welland Board (where all Welland S151 officers are members) and to Audit Committees. All actions from the improvement plan were signed off by the Welland Board. Annual self-assessment against PSIAS included within Head of Internal Audit's Annual Report – to be presented to the Welland Board and Audit Committees.
	1321	Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'	✓			Based upon completion of improvement plan and ongoing assessment and quality assurance processes, results support compliance with Standards and Code of Ethics.
	1322	Disclosure of Non-conformance	✓			Instances of non-conformance were reported to the Board and Committees following the external assessment. Progress against the improvement plan to address all areas of non-conformance was reported to Committees and management until all actions were signed off.
2000 – Managing the Internal Audit Activity	2010	Planning	✓			Process for development of risk based audit plans was presented to each Audit Committee for approval. Plans were developed with input from senior management and Committee members. Audit planning process is documented in Internal Audit Charter.
	2020	Communication and Approval	✓			Any changes to the approved Audit Plans during the financial year are communicated to the Audit Committee and subject to agreed approval mechanisms in accordance with the delegated decision making

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						arrangements.
	2030	Resource Management	✓			Resources reviewed on an ongoing basis to ensure these are appropriate, sufficient and effectively deployed. Team includes four professionally qualified, experienced Audit Mangers. Any concerns on adverse impact on provision of the audit opinion would be raised by the Head of Internal Audit in Annual Report.
	2040	Policies and Procedures	✓			Audit manual, charter and practice notes revised as part of improvement plan to ensure compliance with Standards.
	2050	Coordination	✓			Other sources of assurance are considered and reviewed as part of the Audit Planning process to avoid any duplication with other assurance providers.
	2060	Reporting to Senior Management and the Board	✓			The Head of Internal Audit attends meetings with senior management and Audit/Governance Committees on a regular basis. Progress reports are presented at every Governance Committee meeting and details of assurance levels are provided with focus upon those of Limited Assurance opinions. The content of the progress reports has been agreed with the existing committees but is subject to constant review to ensure this meets the needs of members and supports effective decision making. The content of the progress reports is to be reviewed at the start of 2015/16 with proposals for amendments presented to the Welland Board and discussed with Audit/Governance Committees. *** Area for further development – Action 1**
2100 – Nature of Work	2110	Governance	✓			Audit team provides independent advice on drafting of governance related policies and attends governance groups, where applicable. Audit findings on risks and controls are presented to the Audit Committee and senior management with recommendations on areas for improvement. As appropriate, the Internal Audit team contributes to the development of the Annual Governance Statement.

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						IT Governance reviews included in rolling IT Audit plan.
	2120	Risk Management	✓			Internal Audit refer to the organisation's risk registers during Annual Planning exercises and provide training to committee members on risk management and the 'three lines of defence' to support effective review. Risks relating to the organisation's governance, operations and information systems, as well as fraud risks, form part of individual audit assignments, as stated in the audit planning records and audit reports. The Internal Audit plans for 2015/16 include review of risk management systems and procedures at two of the five Councils within the consortium. For those remaining Councils, as stated in the PSIAS 'Internal Audit gather the information to support this assessment during multiple engagements The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness'. As such, the outcome of the various risk based assignments within the Audit Plans provide an understanding of the effectiveness of the Council's risk management procedures which can be raised with senior management and the Committee. Auditors are alert to other significant risks when undertaking any consulting engagements and give advice and make recommendations but it is the responsibility of management to implement these actions.
	2130	Control	✓			In accordance with the risk based approach to Internal Audit assignments, the adequacy and effectiveness of controls are evaluated and reported upon on each audit assignment. The audit report template clearly provides an assurance rating for both design and compliance for each control.
2200 – Engagement Planning	2201	Planning Considerations	✓			An audit planning record is issued and subject to formal approval for all audits. This outlines the scope, objectives, timescales, resource

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						allocations, access requirements and limitations to scope for the assignment. This is reviewed and approved by the Head of Internal Audit before issuing to the client. Any consultancy engagement is also subject to documented, agreed scope, objectives and respective responsibilities of the auditor and the client.
	2210	Engagement Objectives	✓			Audit planning records are agreed for each engagement following preliminary discussions on risks with the audit clients and with input and review from Head of Internal Audit. Value for money considerations are included in the scope as appropriate.
	2220	Engagement Scope	✓			Detailed audit planning records are provided for all assignments establish the objectives, resources and access to systems, records, personnel and premises, as appropriate.
	2230	Engagement Resource Allocation	✓			Audit planning records state the number of audit days allocated to the assignment and the Audit Manager should agree a scope which is achievable within the resource available. The Head of Internal Audit reviews and approves all audit planning records before issuing to clients to ensure scope is appropriate and consistent with resource allocation.
2300 – Performing the Engagement	2310	Identifying Information	✓			Audit Managers ensure that sufficient, reliable and relevant information is used for audit assignments. File reviews conducted by Head of Internal Audit to confirm quality of evidence and basis for conclusions.
	2320	Analysis and Evaluation	✓			File reviews conducted by Head of Internal Audit to confirm quality of evidence and basis for conclusions. Clearance meetings held with clients to discuss findings and basis for conclusions and provide opportunity to confirm accuracy of findings.
	2330	Documenting Information	✓			Retention of evidence to support conclusions and engagement results is saved on the audit software and network folders, where access is limited to Audit staff. Any hard copy evidence is scanned onto the network and software and destroyed via confidential waste.

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						Practice note states 'Rutland County Council is the Consortium's employing body and the Consortium operates in line with the Council's Document Retention Policy'.
	2340	Engagement Supervision	✓			Monthly supervision meetings held with each member of Audit team to discuss progress made with each assignment, any issues encountered, workload and priorities for the month ahead. All audit reports are reviewed by the Head of Internal Audit and evidence is retained on file. All working papers are reviewed by the Head of Internal Audit (unless completed by an Auditor and fully reviewed by Audit Manager). Evidence of the review is held on the audit software with full audit trail.
2400 – Communicating Results	2410	Criteria for Communicating	✓			Internal Audit reports state the objectives, scope, conclusions, recommendations and agreed action plans.
	2420	Quality of Communications	✓			Head of Internal Audit review of reports ensures these are accurate, objective, clear, concise, constructive, complete and timely.
	2421	Errors and Omissions	✓			No incidents recalled of any significant errors or omissions in reports. Any such incidents would be suitably escalated for resolution.
	2430	Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'	✓			Based upon completion of the improvement plan arising from the external assessment and the internal self-assessment, results support this statement.
	2431	Engagement Disclosure of Non-conformance	✓			Not applicable.
	2440	Disseminating Results	✓			The final reports issued on all assignments are provided to all individuals named on the circulation list, approved at the commencement of the audit. Any circulation to parties in addition to those listed on the audit planning record will be agreed with the Head of Internal Audit and senior management. Copies of all finalised audit reports are available to Committee members by requesting from the Head of Internal Audit or Section 151

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						Officer. Copies are provided to the Chair of the Audit/Governance Committee where agreed with the specific committee. The progress reports presented at each committee meeting include the outcome of each assignment, in relation to the assurance rating. In order to provide members of the committee with sufficient detail in relation to the findings, the content of the progress report is currently under review by the Head of Internal Audit and will consistently include a summary of each assignment completed during the period for all members of the consortium. *** Area for further development – Action 1**
	2450	Overall Opinions	✓			The Head of Internal Audit provides an annual Internal Audit opinion which can be used to inform the Council's governance statement. This report includes an opinion, a summary of work that supports that opinion and a statement on conformance with PSIAS.
	2500	Monitoring Progress	✓			There is an established process in place at each of the councils within the Consortium for the follow-up of progress made by management in implementing the agreed actions arising from audit reports. Internal Audit monitor and report to the Committee on the progress made. The Head of Internal Audit is currently reviewing the level of detail provided to Audit/Governance Committees on the implementation of actions to ensure these can be suitably reviewed and challenged, as necessary. *** Area for further development – Action 1**
	2600	Communicating the Acceptance of Risks	✓			Where an identified risk is accepted by management this is reflected in the audit report. Where the risk is subsequently accepted because the agreed action is no longer feasible this would be discussed with senior management and details and context would be reported to the Committee. If the Head of Internal Audit had concerns about the level of risk accepted by management this would be reported to the Committee.

Conclusion

Based upon the self-assessment completed by the Head of Internal Audit on 23rd April 2015, the Welland Internal Audit Consortium is compliant with the Public Sector Internal Audit Standards (PSIAS).

One action for further development has been highlighted as follows:

Action	Details	Owner	Timescale
1	Whilst the current Progress Reports presented to the Councils' Audit Committees include details of delivery of the Audit Plan and Assurance Opinions assigned to completed assignments, there is scope to further review and develop the content of these reports. In particular: • To ensure all progress reports include a summary of the key findings of audits completed during the period. • Any limited assurance opinions are suitably highlighted to the Committee's attention, with assurances over actions underway to address the issues raised. • Members should be provided with more details on the implementation of actions arising from audit reports including the nature of the actions, priority levels and timescales. This should enable Members to exercise their role in challenging any failure in implementing actions to address high risks to the Council. Focus should be upon actions assessed as High or Medium proirity. The format and content of the Progress Report will be reviewed and strengthened to ensure Members are provided with all information required to effectively exercise their roles and responsibilities.	Head of Internal Audit	To present proposed format to Welland Board for approval by June 2015.