

**Head of Internal Audit
Annual Report
2014 - 2015**

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Executive Summary

This annual report provides a summary of the work completed by Swindon Internal Audit Services for 2014/15 and provides the Head of Internal Audit's overall opinion on the Council's framework of governance, risk management and control. It is a requirement of the Public Sector Internal Audit Standards that the Head of Internal Audit should give this opinion.

Based on our work carried out during the year, my overall opinion is that the Council's framework of governance, risk management and control during 2014/15 are considered to be **satisfactory**, resulting in a '**moderate**' level of risk.

More detail as to how this opinion has been reached is contained later in the report.

Introduction

The aim of Internal Audit is to help the Council meet high standards of service delivery, conduct and governance by examining, evaluating and reporting on the internal control environment. This then allows us to provide assurance and support to the:

- Audit Committee in discharging its responsibilities for:
 - (a) Advising on the adequacy and effectiveness of the Council's risk management, internal control and governance processes in accordance with the requirements of The Accounts and Audit Regulations 2015.
 - (b) Supporting the Board Director: Resources with his delegated responsibility for ensuring arrangements for the provision of an adequate and effective internal audit.
 - (c) Monitoring the adequacy and effectiveness of the Internal Audit Service and Director's/Heads of Service responsibility for ensuring an adequate control environment.
- Council Leader and Chief Executive in their annual certification of the Annual Governance Statement.
- Director of Finance in discharging his statutory responsibilities under Section 151 of the Local Government Act 1972.
- External Auditor in relation to our work on the main financial systems audits.

Statutory Framework

Internal Audit is a statutory requirement for local authorities. There are two principal pieces of legislation that impact upon internal audit in local authorities:

- Section 151 of the Local Government Act 1972 requires every authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs.
- Section 5 of the Accounts and Audit Regulations 2015 (England and Wales) states that '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. The Regulations also require the Council, each year, to conduct a review of the effectiveness of its system of internal control.
- All principal local authorities subject to the Accounts and Audit Regulations 2015 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS).
- The CIPFA statement on the Role of the Chief Financial Officer in Local Government states that the chief financial officer must:
 - Ensure an effective internal audit function is resourced and maintained
 - Ensure that the authority has put in place effective arrangements for the internal audit of the control environment
 - Support the authority's internal audit arrangements; and
 - Ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively

Definition of Internal Audit

Internal Audit is 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (source: Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector).

Annual Governance Statement

The outcome of the audits performed during 2014/15 help to inform Internal Audit's overall opinion on the adequacy of the Council's systems of governance, risk management and internal control which will then feed in to the Council's Annual Governance Statement. Internal Audit is only one of a number of areas of assurance that contribute to the Council's Assurance Framework.

The Accounts and Audit Regulations 2015 require an Annual Governance Statement (AGS) to be published, in accordance with proper practices, following the Council's review of its system of internal control. The AGS is required to include the following disclosures:

- An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).
- An indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide.
- A brief description of the key elements of the governance framework, including reference to group activities where those activities are significant.
- A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements.
- An outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.

Audit Committee

It is important to ensure that the Council has a sufficiently independent and effective Audit Committee that follows best practice. Audit Committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. In turn Internal Audit provides a key source of assurance to the committee as to whether controls are operating effectively. Audit Committees are not just the concern of auditors; they are about the governance, financial reporting and financial performance of the whole authority.

Effective corporate governance depends, in part, on a systematic strategy, framework and processes for managing risk. Governance is also about increasing public confidence in the objectivity and fairness of financial and other reporting. This in turn depends upon assurance that issues raised in preparing and auditing annual accounts and other reports have been dealt with. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance.

The existence of an independent and effective audit committee helps to convey to staff and to the public the importance Members and Officers attach to governance arrangements and internal control.

The Council has adopted best practice in implementing a stand-alone Audit Committee that is independent of the Executive. Members promote the need for internal control and risk management. The Chief Executive, Board Directors, Heads of Service and other relevant officers have attended meetings of the Committee to update Members on the progress in implementing audit recommendations thereby helping to raise the profile of the work of internal audit.

The Committee has an agreed set of terms of reference that encompass the recommendations/guidance issued by CIPFA and External Audit. These terms of reference set out the following main responsibilities of the Audit Committee:

- (a) The effectiveness of the Council's risk management, internal control and its overall assurance framework.
- (b) The effectiveness of the Council's financial and non-financial performance to the extent that it might impact upon (a) above.
- (c) Reviewing the performance of the Council's Internal Audit section; enhance and promote the profile, status and authority of the internal audit function and to demonstrate its independence.
- (d) Receipt and review of External Audit's reports and liaison with external auditors on significant matters identified.
- (e) Advising upon and/or reviewing the effectiveness of any other matters referred to the Audit Committee by the Executive, the Overview and Scrutiny and Regulatory Committees.
- (f) Ensuring effective scrutiny of treasury management policies and practices including the annual investment strategy.

The Committee also has the responsibility of agreeing the Council's statement of accounts and the Annual Governance Statement.

Members have self-assessed the Audit Committee arrangements against the *Toolkit for Local Authority Audit Committees* produced by the CIPFA Better Governance Forum.

Meetings of the Committee have been well attended and Members have ensured that there has been debate on a range of topics. The Committee has produced an annual report to Council setting out their activity over the past year.

External Audit

The Council's External Auditors, Grant Thornton, examine the work of Internal Audit on an annual basis and seek to place reliance on that work when they come to audit the Council's financial statement of accounts.

External Audit are only required to carry out a high level review of Internal Audit and only report on Internal Audit by exception, in any of their external reporting i.e. their Annual Governance Report or Annual Audit Letter.

However, Grant Thornton were able to state that 'from a review of internal audit plans, on-going discussions with Internal Audit, attendance at the Audit Committee and review of Internal Audit reports and consideration of the impact on the control environment there are no matters we wish to raise'.

The standards the section works to are the Public Sector Internal Audit Standards. These standards set out:

- The definition of internal auditing
- Code of ethics
- International standards for the professional practice of internal auditing. These standards cover the following areas:
 - Purpose, authority and responsibility
 - Independence and objectivity
 - Proficiency and due professional care
 - Quality assurance and improvement programme
 - Managing the internal audit activity
 - Nature of work
 - Engagement planning
 - Performing the engagement
 - Communicating results
 - Monitoring progress
 - Communicating the acceptance of risks

The section works closely with the Council's External Auditor to ensure that we can provide the required assurance both as far as coverage and quality of our work.

Internal Audit Coverage

The level of internal audit resources required to examine all the Council's activities far exceed those available each year. It is, therefore, essential that the work of Internal Audit be properly planned to ensure that maximum benefit is gained from the independent appraisal function that internal audit provides.

Resources must be appropriately targeted by assessing the Council's total audit needs and preparing a plan that ensures systems are reviewed on a risk basis according to the impact they have on service delivery.

The Internal Audit plan for 2014/15 was based to a large extent on the Council's corporate risk register. These were complemented by:

- Priorities identified by Board Directors
- Heads of Service key risks
- The requirements of the Board Director: Resources in his role as Section 151 Officer
- External Audit and;
- Those concerns/issues raised by Internal Audit in previous audits and our knowledge of potentially high-risk areas.

The plan was submitted to Corporate Board before being approved by the Council's Audit Committee.

We managed to complete 83% against a target of 94% of the number of audits included in the plan. This coverage included 100% of the main financial system audits that provide the Board Director: Resources with assurance regarding the Council's these key financial systems.

During the final three months of the year the section also covered the risk management function as the Risk Manager left the Council.

Details of all the internal audit reports issued during 2014/15 are set out in [Appendix 1](#).

Internal Audit – Overall Opinion

It is a requirement of the Public Sector Internal Audit Standards that the Head of Internal Audit should give an opinion regarding the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Our overall opinion on a system is based on both the materiality and impact of the system and our opinion on the internal control arrangements within the system. The combination of these factors then results in a category of risk to the Council as shown in *Table 1* below:

		MATERIALITY AND IMPACT		
SYSTEM CONTROL		High	Medium	Low
1	High standard	Moderate	Minimal	Minimal
2	Satisfactory	Moderate	Moderate	Minimal
3	Significant Improvements required	Of Concern	Moderate	Moderate
4	Fundamental weaknesses identified	Significant	Of Concern	Moderate

Our work in 2014/15 identified that four (Treasury Management, Council Tax, NNDR and Housing Rents) were found to have a high standard of internal control. Seven (Main Accounting, Creditors, Debtors Housing Benefits, Payroll, Asset Management and Risk Management) were found to have had a satisfactory level of system control. In the opinion of the auditor all eleven of the main financial systems audited were found to present only a **moderate** risk to the Council.

Therefore, based on our work carried out during the year, my overall opinion is that the Council's overall internal control arrangements during 2014/15 are considered to be **satisfactory**, resulting in a '**moderate**' level of risk.

A number of the other areas audited during 2014/15 did indicate an 'Of Concern' risk to the Council. However, it should be noted that as the audit plan is risk-based and has been compiled with input from Board Directors and Heads of Service, on areas that they had concern with, then it is to be expected that the level of audit opinion for these areas would be lower.

Those systems reported during the year where an '**of concern**' risk to the Council was reported were: Reduction in energy use; Engagement of consultants; Tenancy Engagement; Hillmead; Oracle system control and integrity; Highways asset management; Right to buy; Workforce engagement; Business continuity; Emergency out of hours and Compliance check of HR data.

The key recommendations relating to these systems have been reported to Audit Committee and full reports, with agreed action plans, have been reported to the relevant Board Director/Head of Service.

Internal Audit – Successes

In addition to achieving 100% of the fieldwork on the main financial systems as required by External Audit, some of our other successes during 2014/15 include:

- External Audit assessment – External Audit have been able to place reliance on our work and assessed our work as complying with the standards set out in the Public Sector Internal Audit Standards.
- 95.45% of the feedback from our customers rated the audits as GOOD or EXCELLENT, the remaining audits were ranked between good and average, none were rated as 'poor'.
- Internal Audit was successful in obtaining funding from the DCLG for Counter Fraud work. The funding only runs until 31st March 2016. The funding has been used to appoint a Corporate Fraud Investigator and a Corporate Fraud Support Officer on fixed term contracts to set up a Corporate Fraud team.
- We continue to provide an excellent internal audit provision at Wiltshire and Swindon Fire Authority as per customer feedback received from the Fire Authority and their External Auditor (KPMG).
- We have been successful in obtaining further 'external' work from Public Power Solutions Ltd and Academy schools.
- We have continued to support our staff in their continuing professional development (CPD). One of our Senior Auditors has successfully completed the final Member of the Institute of Internal Auditors (MIIA) examination, whilst another Senior Auditor has recently obtained both the Certified Information Systems Auditor (CISA) and Certified Penetration Testing Engineer qualifications. One of the Principal Auditors is currently studying for a risk management qualification and both our new Audit Trainees will be shortly starting to study for their PIIA examinations.
- The Head of Internal Audit continues to be on the Board of the National Anti-Fraud Network (NAFN).

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- Internal Audit again successfully took on the Risk Management function (for the final three months of 2014/15) when the Council's Risk Manager left the Council. Feedback from the Chief Executive was that the service provided was of a high standard and had provided significant challenge to Corporate Board. We continue provide this function whilst the appointment process for a new Risk Manager is completed.
- Internal Audit's Senior Auditor (ICT) has provided significant advice and assistance in order to help the Council during the absence of a Head of ICT. Since the subsequent appointment of a new Head of ICT the Senior Auditor has worked closely with them regarding ICT risks, controls, policies etc.
- Internal Audit has started to develop IDEA to allow the data matching of Council data. Duplicate payments of over £46,000 were found during 2014/15. Internal Audit will continue to run this data match on a regular basis. Data matching with other key internal data sets will also be carried out during 2015/16.

Internal Audit – Whistleblowing and Investigations

The Internal Audit section continues to support the Council's Whistleblowing process in liaison with the Director of Law and Democratic Services. The section received seven new whistleblowing cases during the year and a further eighteen separate investigations were also carried out during 2014/15.

Reports are issued to Standards Committee on the progress of the Whistleblowing investigations. The investigations can be both time consuming, and lengthy. A fraud/Investigation update is presented to Audit Committee on an annual basis. A report will be presented to the Committee meeting in June 2015. Internal Audit carried out 25 investigations in 2014/15 of which seven were a result of concerns/allegations received through the Council's whistleblowing process.

Internal Audit – Other Activity

- **Annual Governance Statement** – the Head of Internal Audit has been tasked by Corporate Board to co-ordinate the compilation of the Council's Annual Governance Statement including the co-ordination of the Group Directors/Head of Services' assurance questionnaires.
- **Anti-Fraud** - the Internal Audit section continues to assist in promoting an anti-fraud and corruption culture. We have issued Fraud Bulletins to all staff highlighting recent scams and frauds that had occurred in both the public and private sectors. In

conjunction with the Director of Law and Democratic Services and the Head of Children, Families and Community Health, we have reviewed the Council's anti-fraud and corruption strategy and whistleblowing policy.

- **National Fraud Initiative** - The Council, via Internal Audit, has again participated in the Audit Commission's (now Cabinet Office's) National Fraud Initiative (NFI) as part of the statutory external audit requirements. The NFI brings together data from across the public sector including local authorities, NHS, the Home Office/other government departments and other agencies to detect "matches" i.e. anomalies in the data which may or may not be indicative of fraud, for further investigation.

For the 2014 exercise, data sets in respect of the following sources were nationally obtained and matched:

Housing Benefit; Housing Tenancy; Student Loans; Payroll; Illegal immigrants; Individuals with no recourse to public funds; Pensions; Licence holders - Taxi Drivers, Market Traders and Alcohol; Blue Badge Records; Deceased persons; Concessionary fares; Residential Care; Insurance and Creditor Records.

- **Raising Fraud Awareness** – in addition to the Fraud Bulletins regular use of the Council's Core Brief has also been used to raise staff awareness of the Council's anti-fraud and corruption strategy and whistleblowing policy.

Internal Audit staff continue to make use of fraud awareness groups, both nationally and regionally, to maintain awareness of frauds occurring that could affect the Council.

- **Fraud Benchmarking and Fraud Statistics** – The annual Audit Commission survey was completed and submitted in May 2014. The survey was used as an additional source of information to inform Internal Audit's proactive fraud work.
- **Advice and consultancy** – members of Internal Audit continue to provide advice both during the course of audits and responding to ad-hoc queries.
- **Attendance at and contribution to, working groups etc.** – members of the section continue to contribute to the development of the Council and ensuring that we are up-to-date with best practice by attending the following committees, working groups etc.
 - Audit Committee
 - Standards Committee
 - Resources Senior Management Team (as a guest)
 - West of England Chief Internal Auditors Group and its sub groups – Children Services, Adult Services, Contract Audit, I.T. Audit and Fraud
 - Western Unitaries Audit Group
 - National Anti-Fraud Network (Head of Internal Audit is a member of the Board)
 - Risk Management ALARM Group

Internal Audit – Review of Performance Management and Quality Assurance Framework

The Public Sector Internal Audit Standards requires that the Head of Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity. The section has a '*Performance Management and Quality Assurance Framework*' that has been presented to, and approved by, the Audit Committee.

- (a) **Performance Management** – the section's key performance indicators are set out in the section below.
- (b) **Quality Assurance** – each individual audit report and supporting working papers/documents are reviewed by either a Principal Auditor or the Head of Internal Audit. Appropriate standards have been set by the Head of Internal Audit in accordance with the Code of Practice. The file reviews ensure the audits comply with the code's requirements and where necessary corrective action is taken.

Internal Audit – Performance Indicators

The section had three key performance indicators in 2014/15:

- ***The percentage of audits completed against the number identified in the agreed Audit Plan.***

Justification for this performance indicator: *to ensure that Internal Audit provides sufficient coverage to ensure that the requirements of the Council's section 151 Officer and External Audit are met and that Internal Audit can give sufficient assurance to the Audit Committee regarding the Council's systems of internal control and the completion of the Annual Governance Statement.*

Target: 92%

Achievement: 83%

Therefore target not achieved in 2014/15

The Audit Committee, Chief Executive and Board Director: Resources were kept informed of progress against the audit plan throughout the year. The section had a number of vacancies during the year, one Senior Auditor took a career break for a year another Senior Auditor and an Auditor were both promoted to roles outside Internal Audit. Also, Internal Audit provided the Council's Risk Management function for the last three months of the financial year.

- ***The percentage of audits of the Council's main financial systems completed against the number identified in the agreed Audit Plan.***

Justification for this performance indicator: *to ensure that Internal Audit provides sufficient coverage and assurance to the Council's Section 151 Officer that appropriate External Auditors regarding the systems of controls in place in relation to the main financial systems.*

Target: 100%

Achievement: 100%

Therefore target achieved in 2014/15

- ***85% of feedback forms rated the audit as GOOD or EXCELLENT.***

Justification for this performance indicator: *to ensure that Internal Audit provides sufficient the level of service required by its clients.*

Target: 85%

Achievement: 95.45% (the other 4.55% rated the service as good/average)

Therefore target exceeded in 2014/15

Acknowledgement

I would like to take this opportunity to thank all Members and Officers for their help in putting the audit plans together and for the courtesy shown to members of the audit section during the course of our reviews.

We do try and make the audit process as constructive and positive as possible by working with Members and Officers. I would welcome any feedback you may have on our performance both on individual audits (where customer feedback forms are provided), or generally. We are always looking to improve our service.

Many thanks,

Nick Hobbs
Head of Internal Audit