



# Annual Internal Audit Opinion 2016/17

## **Background**

The Accounts and Audit Regulations 2015 require the Council to maintain an adequate and effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards and CIPFA's Local Government Application Note.

The applicable standards are the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1st April 2013.

In accordance with the standards, the Head of Internal Audit (Audit Manager) is required to deliver a report to those charged with governance, timed to support the Annual Governance Statement (Regulation 4 of the Accounts and Audit Regulations 2015), which must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

## **Responsibilities**

It is a management responsibility to develop and maintain the internal control framework and to ensure compliance. It is the responsibility of Internal Audit to form an independent opinion on the adequacy of the system of internal control.

## **Independence and Accountabilities**

Internal Audit remains independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.

In addition, the Audit Manager has direct free and unfettered access and freedom to report in his own name and without fear or favour to all officers and members, particularly to those charged with governance (including the Chief Executive and the Chair of the Audit Committee).

## **Audit Opinion 2016-17**

The Internal Audit work undertaken during the year has enabled Internal Audit to provide an objective assessment of whether systems and controls are operating effectively. In giving an audit opinion, however, it should be noted that assurance can never be absolute. However, the scope of the activity undertaken is sufficient for reasonable assurance to be placed on the work.

The overall opinion expressed by the Audit Manager for 2016/17 stated that, Internal Audit reports on both Corporate Governance and Internal Control arrangements. The Audit Manager is satisfied through the review of internal control during 2016/17 that internal control in the Council is good, although it is not possible to provide absolute assurance about the overall system of internal control.

## **Audit Resources**

During 2016/17 the Internal Audit Service was delivered by a suitably qualified team comprising of the Audit and Performance Manager, Senior Auditor and Auditor. The Audit and Performance Manager is a qualified member of the Chartered Institute of Internal Auditors. The Senior Auditor is a qualified Association of Chartered Certified Accountants (ACCA) member. The Auditor is a part qualified member of the Chartered Institute of Management Accountants (CIMA).

Each member of the team regularly participated in Continuing Professional Development (CPD) and attended the North West Audit Risk & Governance Groups training courses provided by CIPFA.

The Audit and Performance Manager also regularly attended the Lancashire District Councils' Audit Group and the Senior Auditor attended the Computer Audit Group meetings throughout the year, thus maintaining close contact with Heads of Internal Audit Units within the Lancashire region.

The Audit and Performance Manager retired at the end of March 2017 and the Senior Auditor was appointed as the Audit Manager from 1<sup>st</sup> April 2017. The Internal Audit team resource now comprises of 2FTE.

Internal Audit must avoid any conflicts of interest that could impede any of the audit work carried out or cast doubt over the independence of the auditor. All team members are therefore required to, annually, declare any interests by signing a statement. We can confirm that there were no conflicts of interests arising that would impact on the integrity, professionalism or the quality of work during 2016/17.

## **Internal Control**

In support of the Accounts and Audit (Amendment) Regulations 2015, the Council must now include an Annual Governance Statement (AGS) in the yearly Statement of Accounts which should include an assurance by Internal Audit of the Council's internal control arrangements.

The AGS requires the Council to undertake a broader review of the Council's governance framework and arrangements. The statement must be approved by the Leader of the Council and the Strategic Director and considered by the Executive. Directors and Service Managers also provide a signed assurance to support the statement and in this way acknowledge their individual responsibilities for internal control.

Internal Audit reports on both Corporate Governance and Internal Control arrangements and these are key elements of the AGS.

The Audit Manager was satisfied through the review of internal control during 2016/17 that Internal Control in the Council is good; although it is not possible to provide absolute assurance about the overall system of internal control.

## Audit Performance

Internal Audit has worked closely with staff from Grant Thornton who took over the role of external auditors from the Audit Commission in September 2012. Trust, co-operation and understanding is key to this relationship and much reliance is placed on work performed through the "Managed Audit" to underpin the overall opinion and judgment of the Council's internal control arrangements.

In respect of their assessment of the internal audit service in 2016/17, Grant Thornton concluded in their Update report to the Committee in March as follows:

*"Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment."*

Grant Thornton will be the Council's External Auditors until 2017/18.

## Compliance with Public Sector Internal Audit Standards

The work of Internal Audit must be conducted in compliance with Public Sector Internal Audit Standards (PSIAS) which were adopted from April 2013. The PSIAS standards comprise Attribute Standards (ranging from the Purpose, Authority and Responsibility of Internal Audit to having a Quality Assurance and Improvement Programme) and Performance Standards (including Managing the Internal Audit Activity, Audit Planning and Performance and Communicating the results of the work undertaken).

Compliance with the PSIAS provides an indication of the effectiveness of the system of internal audit and in recognition of this, there is a checklist against which local authorities can self-assess compliance. A self-assessment was carried out using the checklist and the Council's Internal Audit Service remains compliant in most applicable areas. The notable exception as reported in previous years has been the requirement for there to be an external assessment of Internal Audit which must be undertaken once within a 5 year period.

This exception was addressed during 2016/17 when, under collaborative arrangements implemented by the Lancashire District Council's Audit Group (LDCAG), the Internal Audit service was independently reviewed by an external peer team. The outcomes from the review were reported to this Committee in January concluded that Internal Audit service conforms with the standards. The report from the Peer Review team concluded as follows:

*"Within the checklist there are 327 questions on CIPFA LGAN Checklist with the Standards. The Peer Review identified only 4 points for consideration into the service's QAIP (Quality Assurance & Improvement Programme). This is a significant and remarkable level of compliance with the Standards at 99%. Whilst not specifically covered by the Peer Review there were some specifically positive points of action."*

*The service's benchmarking outcomes indicate an economic and efficient service. The auditors were experienced and knowledgeable on the audit areas which enables this*

*and the audit process is streamlined to achieve tight delivery timescales. The assurance coverage was tailored to the requirements of the organisation.*

*The internal audit recommendations database or IARD was a particularly good way of ensuring accountability for the timely implementation of recommendations. There was comprehensive management feedback on every audit. The working papers and audit documenting process was lean and enabled the rapid reporting by exception which the service has developed. The impact of the service within the organisation was very positive and all the responders to the questionnaires sent out gave agree (84%) or partially agree (16%) return."*

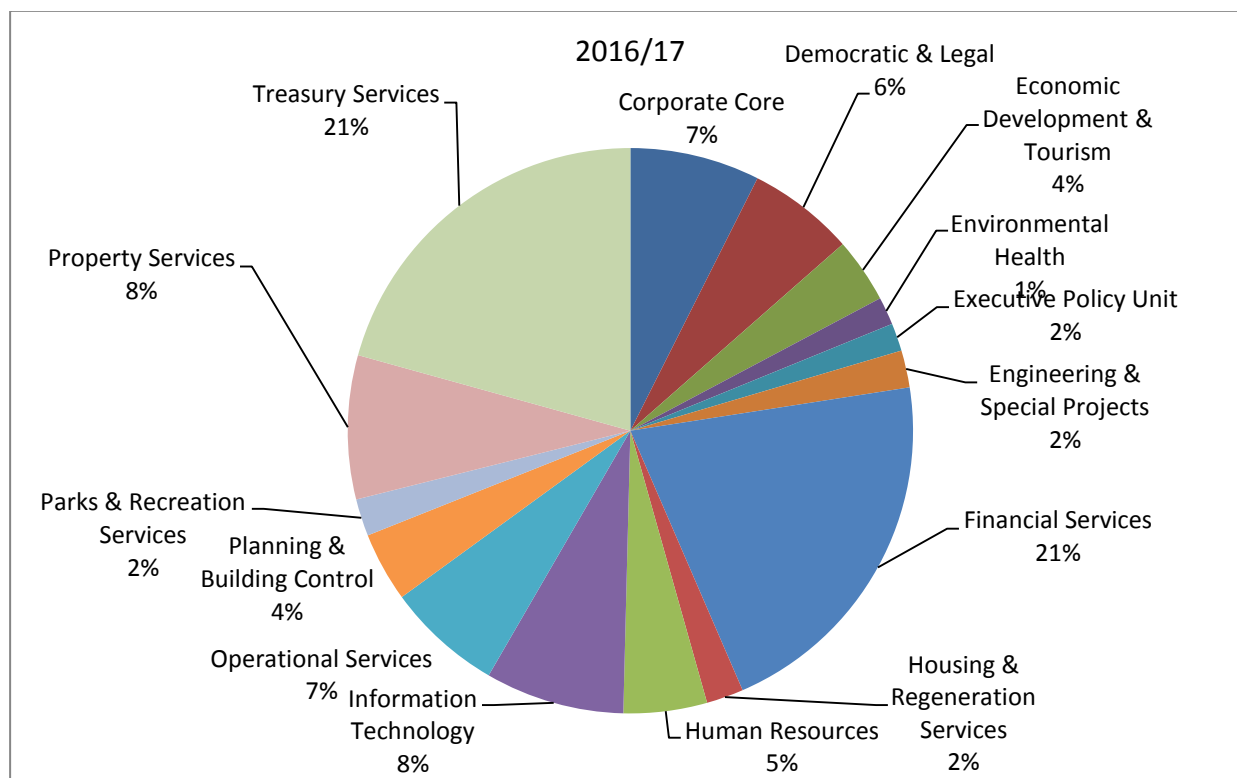
### **Benchmarking**

During 2016, the Lancashire District Audit Group undertook a benchmarking exercise. All Lancashire District Councils were invited to participate, and nine authorities submitted data. The exercise used 2016/17 budget data and 2015/16 actual expenditure and examined functions, roles and remit of each Internal Audit Unit. The exercise showed that Pendle's Internal Audit service to be in a sound position when compared to local districts. The results of the exercise were shared at the Accounts & Audit Committee in January 2017.

## Internal Audit Coverage and output

The Annual Internal Audit Plan for 2016/17 was approved by Management Team and the Accounts & Audit Committee in March 2016.

The coverage by Service Area for the completed audit plan was as follows;



Internal Audit completed 31 audits up to the end of March 2017 with a further 7 completed in early part of the 2017/18 financial year.

All high risk and key financial systems were reviewed. The main system reviews comprising this slippage were Housing Benefits, Council Tax, NNDR and Main Accounting. It is worth noting that it is not unusual for main systems to sometimes slip into the following financial year, as these are the largest areas and for testing purposes, they are normally audited in the last quarter of the financial year.

The following table captures the level of assurance issued for each review including those that slipped into 2017/18. There were no 'Limited Assurance' or 'None Assurance' opinions given during the year.

Service Area	Assurance	Audit reviews
Corporate	Substantial	Mobile Phones
Corporate	Substantial	Petty Cash

Corporate	Substantial	Staff Allowances & Expenses
Corporate	Substantial	Gifts & Hospitality
Customer Services	Full	Income Collection
Democratic and Legal	Substantial	Elections & Electoral Reg.
Democratic and Legal	Substantial	Printing and Stationery Unit
Economic Development & Tourism	Substantial	Town Centre Grants
Economic Development & Tourism	Substantial	Discover Pendle
Engineering & Special Projects	Substantial	Parking Enforcement
Environmental Health	Substantial	Env. Health/Pest Control
Financial Services	Full	Insurance
Financial Services	Full	Treasury Management
Financial Services	Substantial	Creditors and Purchasing
Financial Services	Substantial	Client Function
Financial Services	Substantial	Discretionary Grants
Financial Services	Substantial	Main Accounting
Financial Services	Substantial	Pearl Contracts
Financial Services	Substantial	Procurement
Housing & Regeneration Services	Full	Women's Refuge
Human Resources	Substantial	Payroll
Human Resources	Substantial	Flexi-time
ICT	Substantial	IT- System Interface Controls
Operational Services	Substantial	Recycling
Operational Services	Substantial	Cleansing Sundry Income
Operational Services	Substantial	Corporate Health and Safety
Parks & Recreation Services	Substantial	Playing Fields
Planning/ Building Control & Licensing	Substantial	Planning Fees
Planning/ Building Control & Licensing	Substantial	Licensing
Planning/ Building Control & Licensing	Substantial	Taxi Licensing
Property Services	Substantial	Pre-qual and tendering
Property Services	Substantial	Industrial/Commercial Rents
Property Services	Substantial	Markets
Property Services	Substantial	Final Account/Contracts
Treasury Services	Substantial	Debtors
Treasury Services	Substantial	Housing Benefits
Treasury Services	Substantial	NNDR (Business Rates)
Treasury Services	Substantial	Council tax

<b>Audit Report Opinions (Assurance level)</b>	<b>Number issued</b>
Full assurance: There is a sound system of internal control designed to achieve the system's objectives. Controls are being consistently applied.	4

Substantial assurance: While there is a basically sound system of control, there are weaknesses which may put the system objectives at risk. There is a level of non-compliance with some of the controls.	34
Limited assurance: Weaknesses in the system of internal controls are such as to put the system objectives at risk.	0
None: There is either very weak or no control leaving the system open to significant error or abuse	0

The following reviews; Community Safety; Risk Management; Periodic Checks, Leisure Trust and Section 106 Agreements were not completed in 2016-17. In the case of Periodic Checks this review was assimilated into the Main Accounting review and Section 106 Agreements was replaced by a review of the Taxi Licensing system. Where the reporting cycle has allowed the reasons for the adjustments have been reported to the Accounts and Audit Committee.

The Audit Manager does not consider these changes to the plan to have an adverse impact on the delivery of the overall opinion for the period.

Listed below is a sample of the work completed and the recommendations accepted by the relevant Service Managers and Liberata Management. A breakdown of the use of Internal Audit time for 2016/17 is contained at [Appendix A](#).

<b>Audit review</b>	<b>Outcome</b>
Housing Benefits	3 recommendations were put forward involving the monitoring of the accuracy of Housing Benefit calculations and ensuring all users with access to the system formally declare any related interests.
Creditors & Purchasing	4 Recommendations made in the previous review one of which was a Priority 1 recommendation have been implemented and there were no further recommendations to be made during this year's review.
NNDR, Council Tax, Income Collection, Treasury Management,	These reviews were given a report with no recommendations, indicating a clean bill of health in these key areas.
Payroll	9 recommendations (7 Priority 2, 2 Priority 3) were made which covered improved control over access rights to the system, ensuring the establishment data is up to date, evidence of checks on parameter changes and supervisory sign off and that there is control over appointments and termination records.
Flexitime system	6 recommendations were made, these were around ensuring



	administration of the system was in line with Council policy and that that users and system administrators maintain a separation in their functions.
Debtors	12 recommendations have been made covering strengthening current recovery methods to aid better recovery of debts.
Taxi Licensing	The review aimed to seek assurance that systems of administration and processing of new and renewal licence applications and enforcement activity are adequate and expected controls are in place and well managed. The review placed a particular emphasis on safeguarding arrangements. 3 recommendations were made as a result to improve controls around the complaints process, accepting cash payments and improving communication.
Industrial & Commercial Rents	2 recommendations were made regarding promptly recharging insurance costs to leaseholders and ensuring rental increases were applied in all cases.
Corporate Health & Safety	This review followed up recommendations made in a previous year and current arrangements. No recommendations were made and albeit there was one outstanding recommendation relating to update of the Risk Management policy which is now included as an item elsewhere on this Committee agenda.

### **Contract Audit**

Internal Audit carries out a final review of all building and construction contracts over the value of £50,000 prior to the final valuation certificate being issued to the Contractor by Liberata Property Services. This is to ensure accuracy and that correct monitoring of the contract has taken place in line with Contract Procedure Rules.

### **Pendle Leisure Trust**

Pendle Leisure Trust relies on the grant funding provided from the Council each year to finance its services. Internal Audit undertakes reviews of the Pendle Leisure Trust financial arrangements to ensure the activities are being governed efficiently, effectively and economically. Although planned, no reviews were carried out in 2016/17.

### **Computer Audit**

Furness Audit Ltd., an external provider performed 1 computer audit review over the year. The area audited was System Interface Controls. The review was given "Substantial Assurance" whilst two Priority 2 recommendations were made to improve controls.

### **Follow up Work**

Once recommendations have been agreed with Management and an implementation timetable set, the action is recorded in the Internal Audit Recommendations Database (IARD). The IARD is reviewed quarterly with Management and the steps being taken to implement the recommendation are recorded. The IARD is reported to the Accounts &

Audit Committee each time it convenes and a full explanation from Management on areas that are not implemented can be requested.

### **Fraud**

Whilst it is not the primary role of Internal Audit to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to mitigate the risk of fraud from arising. Internal Audit will carry out additional checks to determine review fraud prevention controls and detection processes put in place by management.

Internal Audit has reported quarterly to the Accounts and Audit Committee information around Housing Benefit related fraud. There were no instances of internal fraud during the year.

It must be noted that Internal Audit processes alone cannot guarantee that fraud or corruption will be detected.

### **National Fraud Initiative (NFI)**

During 2016/17 Internal Audit continued to complete work around the National Fraud Initiative (NFI). The overall responsibility for this exercise has now passed from the Audit Commission to the Cabinet Office. Data sets are supplied when requested and matches investigated as required.

### **Strategic plan 2017-20**

Work was undertaken to refresh the 3 year Strategic Plan. The Plan was developed in accordance with the Public Sector Internal Audit Standards (PSIAS) 2013 using a risk-based approach to determine the priorities of the internal audit activity for the period 2017-20.

An Audit Needs Assessment was undertaken across the entirety of the auditable areas across the Council. The result of this work allowed limited audit resources to be targeted at areas of highest risk whilst at the same time ensuring that all auditable areas are audited on a systematic basis.

The Plan anticipates that the percentage planned audit and risk coverage of all audit areas will be at 60% in each year. The Plan along with the Internal Audit Strategy was approved by the Accounts and Audit Committee in March 2017.

### **Quality Control**

As part of the Internal Audit Unit's quality control process, Service Area Managers are requested to complete a Quality Control Questionnaire at the conclusion of each audit. This takes the form of 6 questions regarding the conduct of the Auditor, the effectiveness of the audit and the timeliness of reporting. The Service Manager ranks each question out of 5, allowing a maximum score of 30. In 2016/17 the average score was calculated at 96.4%, an increase on the level achieved from previous year of 93.2%. The scores form part of the Unit's annual performance indicators, which are set out below.

## Acknowledgements

Thanks are due to all Service Area Managers and Liberata Management and their staff for their assistance and co-operation during the Audits undertaken by the Unit last year.

## APPENDICES:

[Appendix A](#) - Total internal audit time – 2016/17

[Appendix B](#) – Quality Assurance

## Performance Indicators

Appendix A – Total Internal Audit Time – 2016/17				
	Actual 2015/16	Planned 2016/17	Actual 2016/17	Variation
Total Available Days	600.6	602.0	572.0	-30.0
Leave/Absence	95.0	84.0	84.0	0.0
Exams/Training	9.1	16.0	12.2	-3.8
Audit Management	50.0	50.0	50.0	0.0
Administration and Non Audit	24.7	30.0	32.7	2.7
Total Rechargeable Days	421.8	422.0	393.1	-28.9
Programme Audits	391.3	367.0	375.5	8.5
Contingencies/Fraud Work/Investigation	23.0	40.0	17.6	-22.4
Pendle Leisure Trust	7.5	15.0	0.0	-15.0

Appendix B – Quality Assurance			
	2014/15	2015/16	2016/17
Number of Main Systems not covered	0	0	0
Number of other systems not covered	3	3	5
Number of reports completed and issued*	36	36	31
Number of recommendations made	102	93	69
Number of recommendations accepted	102	92	69
Number of recommendations not accepted	0	1	0
Number of "work in progress" reports*	4	4	7
Average Quality Control Score	90.44%	93.24%	96.43%

\* As at 31st March