

# Annual Internal Audit Opinion & Quality Improvement Programme 2015/16

Blackpool Council



# Annual Internal Audit Report and Opinion

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## Introduction

In previous years the annual internal audit opinion of the Chief Internal Auditor has been incorporated in the Risk Services Quarter Four Report. However, for 2015/16 onwards the annual opinion will form part of a separate report which also incorporates the internal audit Quality Assurance Improvement Programme, in line with the requirements of the Public Sector Internal Audit Standards. In future years progress against the new Quality Assurance Improvement Programme will also be included as part of this report. This is the first report in the new format for consideration and approval by the Corporate Leadership Team and Audit Committee.

## Role of Internal Audit

The role of internal audit is defined as:

**‘An independent, objective assurance and consulting activity designed to add value and improve an organisations operation. 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’.**

The requirement of an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

**‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance’.**

The standards for ‘proper practices’ in relation to internal audit are set out in the Public Sector Internal Audit Standards (2013) and Blackpool Council’s internal audit team needs to demonstrate compliance with these standards or report non-conformance to the Audit Committee.

The Council has a duty to establish and maintain appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit’s role is to advise the Council that these arrangements are in place and operating effectively. The Council’s response to internal audit activity should lead to the strengthening of the control environment and therefore contribute to the achievement of the organisation’s objectives.

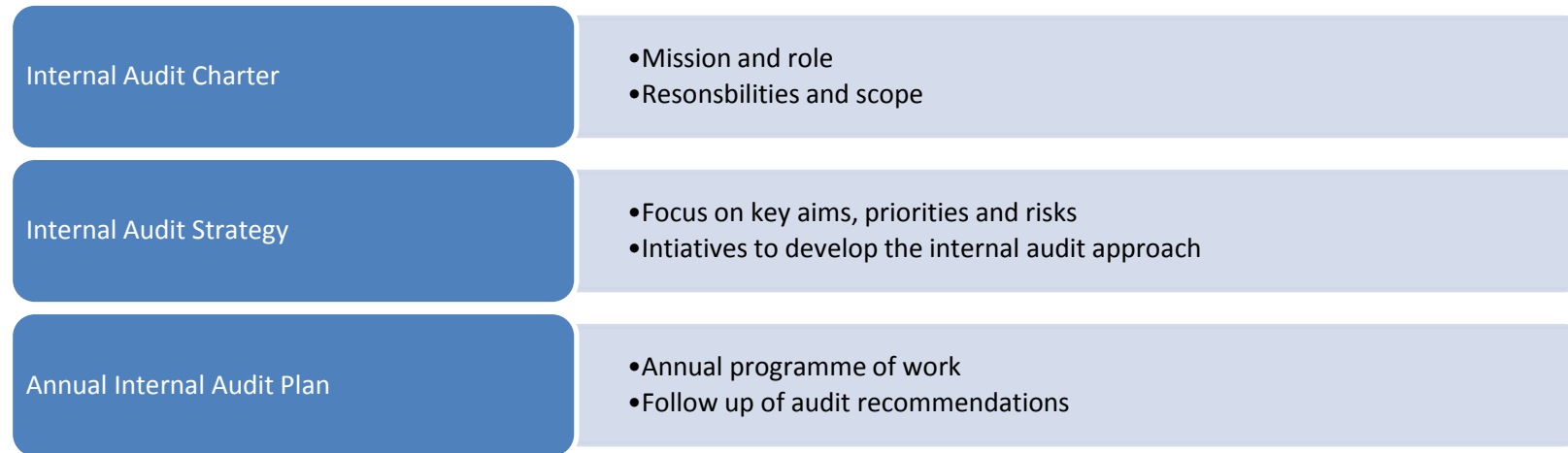
The role of internal audit is further defined in the Internal Audit Charter which is approved by the Corporate Leadership Team and Audit Committee on an annual basis.

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## Internal Audit Approach

A framework has been implemented to enable an overall annual internal audit opinion to be provided by the Chief Internal Auditor. This incorporates a number of key documents covering the remit of internal audit, its key priorities and plans which when combined enable the annual opinion to be produced. Each of these documents is regularly reviewed to ensure that they remain relevant and meet the requirements of professional standards and the ever changing control environment at the Council. The key documents and their relationships are illustrated below:



The internal audit team provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help improve those systems and processes where necessary.

A full range of internal audit services is provided to help form the annual opinion as illustrated:

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The outcomes of all planned internal audits are reported to the Corporate Leadership Team and the Audit Committee on a quarterly basis and a full copy of the internal audit report is available on request from the Chief Internal Auditor.

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## Internal Audit Opinion

Blackpool Council's Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its Annual Governance Statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In giving this opinion assurance can never be absolute and therefore, only reasonable assurance that there are no major weaknesses in the processes reviewed can be provided. In assessing the level of assurance to be given the opinion has been given based on:

- Internal audit assurance statements issued throughout the year as part of the annual audit plan.
- Written reports provided as a result of advice / consultancy work undertaken by the internal audit team.
- The implementation of recommendations made by internal audit linked to high risks throughout the year.
- The extent of resources available to deliver the annual internal audit plan.
- The quality and performance of the internal audit service and the extent to which it complies with the Public Sector Internal Audit Standards.
- Whether the target for delivery of the internal audit plan has been achieved.
- Alignment of the annual audit plan with the strategic risk register to ensure that key risks are being effectively managed.
- The results of other review bodies where appropriate.

### Annual Audit Opinion 2015/16

The Chief Internal Auditor is satisfied that sufficient assurance work has been carried out to allow the provision of a reasonable conclusion on the adequacy and effectiveness of Blackpool Council's internal control environment.

The opinion of the Chief Internal Auditor is that the overall control environment of the Council is adequate.

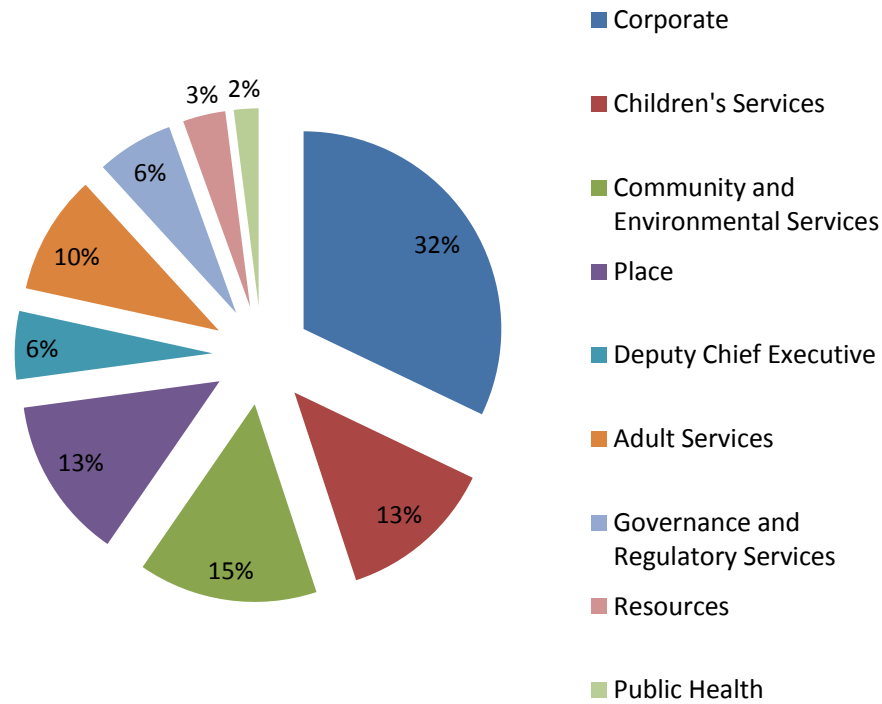
Where weaknesses have been identified through internal audit work the team have worked with management to agree appropriate remedial actions and a timescale for improvement.

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## Internal Audit Coverage and Output

The Annual Internal Audit Plan for 2015/16 was approved by the Corporate Leadership Team and Audit Committee in March 2015 and 89% of the plan was delivered by the end of the year. Of the plan planned delivered the spilt per directorate was as follows:



Throughout the year internal audit have also been asked to provide advice on a range of risk and control issues. The key areas where advice has been given include:

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- Client Finances Banking Arrangements
  - Libraries Income Collection
  - Registrars Income Reconciliation
  - Direct Payment Overpayments
  - P2.net interface with E-Invoicing
  - Health Watch Financial Arrangements
  - Personal Transport Budgets
  - Community Shop
  - Cosy Homes in Lancashire
  - Counterfeit Money
  - Materials for sale at Layton Depot
  - Finance Process Manager (FPM)
  - Petty Cash
  - Payment Card Industry Compliance
  - Retention Periods
  - Conflicts of Interest

A number of planned internal audits for 2015/16 have not been undertaken after discussion with management and these include:

Review	Reason for Deferment
Housing Benefit Risk Based Verification	<ul style="list-style-type: none"> <li>• The risk based verification scheme was not implemented until December 2015 and therefore the audit will be deferred until early 2017/18 for the scheme to be embedded.</li> <li>• Internal audit were involved in the development of the scheme and therefore provided early assurance that the criteria to be applied were appropriate.</li> </ul>
Public Health Commissioning	<ul style="list-style-type: none"> <li>• This audit has been deferred until 2017/18 due to potential changes to the model used to provide commissioning services.</li> </ul>

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Governance Arrangements of Boards and Panels	<ul style="list-style-type: none"><li>• Considerable work has been undertaken by Governance and Regulatory Services in 2015/16 to address the control weaknesses.</li><li>• The audit has been deferred to 2016/17 to provide assurance that the new arrangements are working effectively.</li></ul>
Identification of Carers, Care and Support	<ul style="list-style-type: none"><li>• This was a requirement of the Care Act however given the delays in the implementation there would be little value in undertaking this review in 2015/16.</li></ul>

The Chief Internal Auditor does not consider these deferrals to have an adverse impact of the delivery of the overall opinion for the period.

There is also some planned work from 2015/16 which is still at draft report stage as these have yet to be discussed with management however the Chief Internal Auditor does not consider that excluding these will have a negative impact on the delivery of the overall opinion for the period. The reports included in this category include:

- Banking Contract
- Framework-I – Non-Residential Payments
- Positive Steps into Work
- Ward Budgets

## Quality Assurance and Improvement Programme

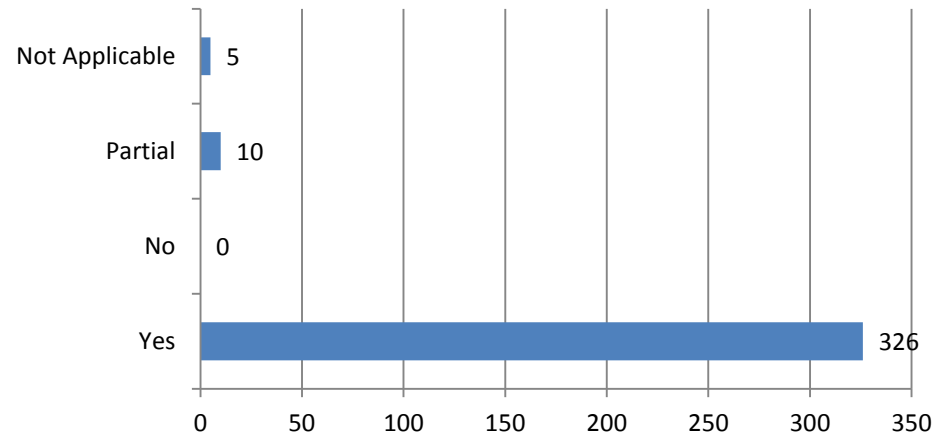
As part of the Public Sector Internal Audit Standards there is a requirement for the internal audit team to have in place a Quality Assurance and Improvement Programme (QAIP). This must include both internal and external assessment of compliance against the standards. The internal assessments are ongoing and an external assessment must be undertaken once every five years. The external assessment of the service is due to take place in 2016/17.

In addition to evaluating compliance with the standards the QAIP must also assess the efficiency and effectiveness of the internal audit activity, identifying areas for improvement. This is achieved through service improvement days and customer satisfaction surveys.

During 2015/16 the Internal Audit Team carried out a self-evaluation against the standards the results of which can be seen in the following chart:



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## Disclosure of Non-Conformance with the Public Sector Internal Audit Standards

It is the opinion of the Chief Internal Auditor that in all material respects Blackpool Council’s Internal Audit Team conforms to the definition of internal audit, the Code of Ethics and the Public Sector Internal Audit Standards.

Whilst the Public Sector Internal Audit Standards only require non-conformance to be disclosed when it impacts the overall scope or operational of the internal audit activity, the additional requirements for the public sector state that all instances of non-conformance and progress against improvements plans must be reported in the annual report. The QAIP Action Plan can be seen in **Appendix 1** of this report.

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## Internal Audit Performance

In order to monitor the performance of the internal audit team year on year a suite of performance indicators have been agreed and progress against the performance indicators are reported to the Corporate Leadership Team and Audit Committee each quarter. The agreed suite of indicators includes:

- Percentage of annual audit plan completed
- Percentage draft reports issued within deadline
- Percentage audit work within resource budget
- Percentage of positive satisfaction surveys
- Percentage compliance with quality standards for audit reviews.

Details of performance against the targets for a three year period are illustrated below:

	2013/2014		2014/2015		2015/2016	
	Target	Actual	Target	Actual	Target	Actual
Audit plan completed	90%	94%	90%	91%	90%	89%
Draft reports delivered in deadline	96%	94%	96%	97%	96%	97%
Audit work completed in budget	92%	97%	92%	90%	92%	91%
Positive satisfaction surveys	85%	88%	85%	82%	85%	88%
Compliance with quality standards	85%	84%	85%	84%	85%	87%

Whilst the stretched performance targets are not always achieved the variances are minimal and therefore are not cause for significant concern. The internal audit team will continue to strive to achieve all of their performance targets in future years.

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### Appendix 1 – Quality Assurance Improvement Programme Action Plan

Source	Issue	Action	Action By
<b>Public Sector Internal Audit Standards</b>	The Internal Auditor Charter does not define the terms ‘board’ and ‘senior management’ for the purposes of internal audit activity.  It should be noted that the board refers to the Audit Committee for the purpose of Blackpool Council.	Internal Audit Charter to be amended to reflect this.	Chief Internal Auditor
<b>Public Sector Internal Audit Standards</b>	The Internal Audit Charter does not establish the responsibility of the board and also the role of the statutory officers (such as CFO, the monitoring officer and the head of paid service) with regard to internal audit.	Internal Audit Charter to be amended to reflect this.	Chief Internal Auditor
<b>Public Sector Internal Audit Standards</b>	The Internal Audit Charter does not document the arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.	Internal Audit Charter to be amended to reflect this.	Chief Internal Auditor
<b>Public Sector Internal Audit Standards</b>	The Chief Internal Auditor does not seek approval from the Board for the internal audit budget and resource plan.	Consider including the internal audit budget in the Annual Audit Plan.	Chief Internal Auditor
<b>Public Sector Internal Audit Standards</b>	The internal audit team have limited knowledge of key information technology risks and controls.	A member of the internal audit team is currently training to be an IT auditor to help address this skills gap.	Chief Internal Auditor

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Source	Issue	Action	Action By
<b>Public Sector Internal Audit Standards</b>	The risk based audit plan does not demonstrate how the internal audit service links to organisational objectives and priorities.	The links will be documented in future annual audit plans.	Chief Internal Auditor
<b>Public Sector Internal Audit Standards</b>	The risk based audit plan does not include details of the approach to using other sources if assurance and any work that may be required to place reliance upon those sources.	Future annual audit plans will document what the process for this is.	Chief Internal Auditor
<b>Public Sector Internal Audit Standards</b>	The Chief Internal Auditor has not carried out an assurance mapping exercise as part of identifying and determining the approach to use other sources of assurance.	Although this happens in practice is it not documented in the annual audit plan and this will be addressed in future plans.	Chief Internal Auditor
<b>Public Sector Internal Audit Standards</b>	The internal audit activity has not assessed whether the Council's information technology governance supports the organisations strategies and objectives.	Whilst this is done on a review by review basis and overall audit has not been undertaken to assess this corporately. This will be considered for inclusion in future internal audit plans.	Chief Internal Auditor
<b>Public Sector Internal Audit Standards</b>	The annual audit option does not consider all related projects including the reliance on other assurance providers.	This is done in practice however the specific areas where reliance has been obtained from other assurance providers is not documented. Consideration will be given to including this in future annual opinion reports.	Chief Internal Auditor
<b>Strategic Audit Plan 2014/2017</b>	There is a need to set out the role of the Chief Internal Auditor and how this fits with others	Liaise with the Monitoring Officer to determine the appropriateness of implementing a Governance	Chief Internal Auditor

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Source	Issue	Action	Action By
	charged with governance at Blackpool Council.	Framework for Blackpool Council.	
<b>Strategic Audit Plan 2014/2017</b>	An awareness of governance is not included in the competencies required by the Corporate Leadership Team.	Liaise with the Monitoring Officer to determine whether governance is an area which should be include in the Leadership Charter.	Chief Internal Auditor
<b>Internal Audit Service Improvement Day</b>	Continually review the Financial Control Assurance Testing to ensure that they focus on key controls and that IDEA file interrogation software is used to further automate the process.	The Financial Control Assurance Testing will be reviewed on an annual basis to confirm that they are fit for purpose and that they are completed in the most efficient way.	Audit Manager
<b>Internal Audit Service Improvement Day</b>	Increase the resilience of the audit team through a generic approach to work allocation.	Ensure that all members of the team get involved in a variety of audit work to develop skills and aid with succession planning.	Audit Manager
<b>Internal Audit Service Improvement Day</b>	Raise awareness of the work of the internal audit team.	Develop the internal audit pages on the Hub to provide services with easy access to information relating to internal audit.	Audit Manager
<b>Internal Audit Service Improvement Day</b>	The internal audit team do not yet have relationships with all of the Council wholly owned companies.	An internal audit service is to provide to each of the wholly owned companies to provide assurance to the Board that controls are working effectively,	Chief Internal Auditor
<b>Customer Satisfaction Surveys</b>	If evidence is identified as missing as part of audit testing then service management be informed of this prior to the draft report being issued.	The Audit Team should be reminded of the need for 'No Surprises Auditing' and provide managers with a summary of findings to check accuracy prior to issuing	Audit Manager

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Source	Issue	Action	Action By
		the draft report.	
<b>Customer Satisfaction Survey</b>	Some audits report focus both on a service and the responsibility of managers to provide information to the service and it is not always clear where this is the case.	Consideration will be given to formatting audit reports in a different way when some findings and recommendations related to a service and some relate to managers corporately.	Audit Manager
<b>Customer Satisfaction Survey</b>	Service managers should be kept informed of progress throughout the audit.	The Audit Team will be reminded of the need to keep service managers informed, including details of planned interviews (where appropriate to do so).	Audit Manager