

INTERNAL AUDIT SERVICE ANNUAL REPORT 2014-15

1.0 INTRODUCTION

- 1.1 The role of internal audit is to provide independent assurance that the Council's risk management, governance and internal control processes are operating effectively.
- 1.2 The Council is required by the Accounts and Audit Regulations to maintain an internal audit of its accounting records and system of internal control in accordance with proper practices.
- 1.3 For 2014/15 proper practices were those defined in the Public Sector Internal Audit Standards (PSIAS).
- 1.4 The PSIAS require the Audit Manager to deliver an annual internal audit opinion and report that can be used by the Council to inform its Annual Governance Statement.
- 1.5 The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 1.6 The assignments set out in the Internal Audit Plan approved by this Committee are the primary source of assurance upon which that opinion is based.
- 1.7 This report summarises key areas of internal audit activity during 2014-15 and identifies any issues relevant to the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

2.0 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

- 2.1 The PSIAS require internal audit to maintain a quality assurance and improvement programme (QAIP). A report was brought to this Committee in January of this year informing Members of the requirements for the QAIP and seeking their views on the commissioning of an external review as required by the PSIAS.
- 2.2 A further report will be brought to a future meeting of this Committee in relation to the future operation of the QAIP and proposals for the external review process.

2.3 For 2014/15 the requirement for a review was satisfied by an internal assessment. This was carried out using the “Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note” published by the Chartered Institute of Public Finance and Accountancy (CIPFA). One area for improvement was identified.

3.0 CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS

3.1 A report was brought to this Committee in March 2013 setting out the requirements of the PSIAS which were adopted with effect from April 2013.

3.2 A further report on guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the application of the Standards in the public sector in the form of a Local Government Application Note was brought to this Committee in June 2013.

3.3 Since that time internal audit has reviewed its systems and procedures to ensure that services are provided in accordance with the standards. This process was completed with the adoption of a new Internal Audit Charter reflecting the changes approved by this committee in January of this year.

3.4 This Committee has approved a suitable framework to maintain an internal audit of the Council’s accounting records and system of internal control in accordance with the Accounts and Audit Regulations.

3.5 Internal audit have adopted the PSIAS and pay due regard to current CIPFA guidance on the application of those Standards.

3.6 The 2014/15 assessment concluded that the work performed by the section in the year was conducted in conformance with the PSIAS.

4.0 INTERNAL AUDIT ACTIVITY 2014-15

4.1 The 2014-15 Internal Audit Plan was prepared using a risk based approach taking into account the Council’s objectives and considering local and national influences on risks to their achievement. It was approved by this Committee in March 2014.

4.2 The 2014/15 Internal Audit Plan contained 26 work-streams. Performance against the plan, summaries of internal audit activity and the level of assurance it provides are reported to this Committee in detail on a quarterly basis.

4.3 Results for the year are summarised in the table below

Title	Assurance
Benefits	Substantial
Contract Audit	Substantial
Performance Monitoring System (BTLS)	Substantial
Community Safety (CCTV)	Substantial
National Fraud Initiative	Non-assurance work
Home Care Link	Substantial
Council Tax	Substantial
Debtors	Full
NNDR	Substantial
Creditors	Full
Transport	In progress
Main accounting	Substantial
Electoral registration	Substantial
Business continuity	Non-assurance work
Payroll	Limited
Bacs	In progress
ICON cash receipting	Non-assurance work
Counter-Fraud Arrangements	Non-assurance work
Treasury Management	Substantial
ICT	Substantial
Data Protection / SIRO	Substantial
Housing QL system controls	Non-assurance work
Money Laundering Reporting System	Non-assurance work
Annual Governance Statement	Non-assurance work
Rents	In progress
Housing Property Services	In progress

4.4 The items in progress are nearing completion and it is anticipated that these will result in substantial assurance reports.

4.5 Non-assurance work is activity undertaken by internal audit not primarily designed to provide assurance. An example is the National Fraud Initiative which the Council is required to participate in. Such work may still provide useful evidence of the effectiveness of controls in operation. During the year the work completed in these non-assurance areas did not disclose any evidence of significant areas of weakness in controls.

4.6 Assurance work identified two areas where full assurance was provided by a sound system of internal control designed to secure objectives and controls being consistently applied.

4.7 The majority of systems provided substantial assurance that objectives will be met, having a generally sound system of internal control with controls generally being applied consistently but with some features of the design or

operation of the controls putting the achievement of some subsidiary objectives at risk.

- 4.8 One system was assessed as providing a limited level of assurance. This was one of the feeder systems to payroll. Previous audits concluded that the computerised payroll system itself incorporates effective controls on authorisation, calculation, recording and payments.
- 4.9 The 2014/15 work concentrated on localised systems in services which initiate variations to payroll prior to input to the computerised payroll system. It concluded that weaknesses in the design of controls on the preparation, authorisation and retention of prime records prior to input to payroll compromised the system.
- 4.10 While controls on variations were inadequate, no evidence was found of incorrect variations having been processed. An action plan to improve controls has been agreed with management and is being progressed through the usual channels.
- 4.11 No areas examined in the year had insufficient controls to provide any assurance that objectives would be achieved.
- 4.12 Assurance work undertaken in the year found that the Council has appropriate controls in place to manage significant risks to its operations. This is reflected in the substantial or full assurance ratings given in the majority of the areas examined.
- 4.13 In addition to planned activity, internal audit have a role in the investigation of potential fraud, responding to items referred to it in accordance with established procedures. In 2014/15 no initial referrals were progressed to the formal investigation stage.
- 4.14 Sufficient audit coverage has been achieved in the year to enable me to provide an opinion on the control environment .

5.0 MANAGEMENT RESPONSES TO INTERNAL AUDIT REPORTS

- 5.1 During the year recommendations for improvements to controls in various systems have been made by internal audit and agreed by Management. Responses from auditees have been satisfactory and recommendations have been implemented in reasonable timescales.

6.0 ANNUAL GOVERNANCE STATEMENT

- 6.1 Internal audit work supports the production of the Annual Governance Statement presented elsewhere on this agenda. There are no issues arising

from Internal Audit's work in 2014/15 which require disclosure in the Annual Governance Statement in addition to those already contained in it.

7.0 OVERALL OPINION

- 7.1 The Internal Audit Plan was prepared without any limitations on scope and has been substantially completed. No issues were identified during the course of the audit work in 2014/15 that would be likely to have a material effect on the Council's Financial Statements.
- 7.2 Based on the work which internal audit have carried out and taking into account other sources of assurance available, such as the Council's external auditor's Annual Audit and Inspection Letter it is my opinion that West Lancashire Borough Council has in place a sound overall framework of governance and effective risk management and control systems.

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