central midlands audit partnership

Ashfield District Council –
Internal Audit Annual Report 2015-16

Audit Committee: 20th July 2016

Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

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Providing Excellent Audit Services in the Public Sector

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Introduction

How an Audit Opinion is Formed

A fundamental role of Internal Audit is to provide members and senior management with independent assurance on the Council's overall control environment, comprising the systems of governance, risk management, and internal control and to highlight control weaknesses together with recommendations for improvement. The annual Audit Plan sets out proposals on how this will be achieved in the year ahead.

The Audit Plan must incorporate sufficient work to enable the Head of Audit to give an opinion on the adequacy of the Council's overall control environment. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.

The audit work planned for 2015-16 has informed the Head of Audit's opinion on the internal control environment that exists within the Council. The Head of Audit reports his overall opinion to the Audit Committee on an annual basis.

The Head of Internal Audit provides this written report to those charged with governance which gives an opinion on the overall adequacy and effectiveness of the organisation's internal control environment. This is timed to support the Annual Governance Statement, which is also being presented to this Committee for review by Members before being signed off by the Full Council.

Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of financial and other management controls.

The Head of Audit's overall audit opinion is based on the work undertaken by internal audit in 2015-16. The reporting of the incidence of significant control failings or weaknesses should also have been covered in the progress reports to the Committee on Internal Audit's progress against the annual audit plan.

Basis for Opinion

The Internal Audit Service for Ashfield District Council has only been provided by the Central Midlands Audit Partnership (CMAP) since 1st January 2016. Accordingly, a large proportion of this opinion has been formed from the work directed by the interim Audit Manager. The Partnership operates in accordance with standards of best practice applicable to Internal Audit (in particular, the Public Sector Internal Audit Standards – PSIAS). CMAP also adheres to the Internal Audit Charter.

In preparing the overall opinion, the Head of Audit has reviewed all audit activity carried out during 2015-16 and noted any issues arising from those audits that have carried forward into 2016-17. Each individual audit undertaken contains a control assurance rating (opinion) on the adequacy and effectiveness of controls in place to mitigate the risks identified. Where weaknesses in control are identified, an action plan is agreed with management. Progress with these agreed actions is monitored by Internal Audit during the year through follow up audit work.

The Head of Audit will use the individual assurance ratings from the audits conducted in 2015-16 and the progress with agreed actions to form the overall opinion.

In presenting his opinion, the Head of Audit will identify where reliance has been placed on work by other assurance bodies. His opinion will be based on the work of Internal Audit and his understanding of work carried out by external assurance agencies.

In respect of the key financial systems of the Council, based on the Internal Audit work undertaken in the year, the Head of Audit will be able to give an overall assurance on the adequacy and effectiveness of the internal controls operating in these systems.

Head of Audit's Opinion 2015-16

Summary

Based on the work undertaken during the year, I have reached the overall opinion that **there is an acceptable level of internal control within the Council's systems and procedures**. I have arrived at this opinion having regard to the following:

- The level of coverage provided by Internal Audit was considered minimal.
- There were no adverse implications for the Authority's Annual Governance Statement arising from any of the work that Internal Audit has undertaken in 2015-16.
- All of the issues raised within the internal audit reports have been accepted.
- Internal Audit's recommendations, or alternative proposed actions made by Management in response to the risk issue, have been agreed to be implemented in all cases but one.
- The Council's system of risk management was comprehensively examined by CMAP during 2015-16 and the overall level of assurance was considered 'Reasonable'.
- Internal Audit has reviewed the Council's management of fraud-related risks during 2015-16 and determined there was sufficient control and the Council's Counter Fraud Strategy has been overhauled.
- Action taken by the Corporate Finance Team to enhance financial control and standards of financial management
- Action taken by the Corporate Performance and Improvement Unit to enhance project management and to better integrate that management of the risks associated with those projects.
- Taken together Sufficient assurance was taken from two Governance assignments focusing on data management and data sharing.
- Whilst nine assignments attracted a 'Limited' assurance rating and one 'nil', the activities subject to audit were not strategically significant and the risks to the Council were not of a financial or legal nature.

This opinion is provided with the following caveats:

- No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
- Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each individual audit report are to be realised.
- A significant proportion of the Audit Plan was undertaken by interim auditors under the guidance and processes of interim audit management.
- Certain shared services have been audited by other organisations to their own procedures and standards.

Controls Examined

For those audits finalised during 2015-16, we established the following information about the controls examined:


ADC - Controls Examined During 2015-16

- Adequate Controls
- Weak Controls

40% / 60%
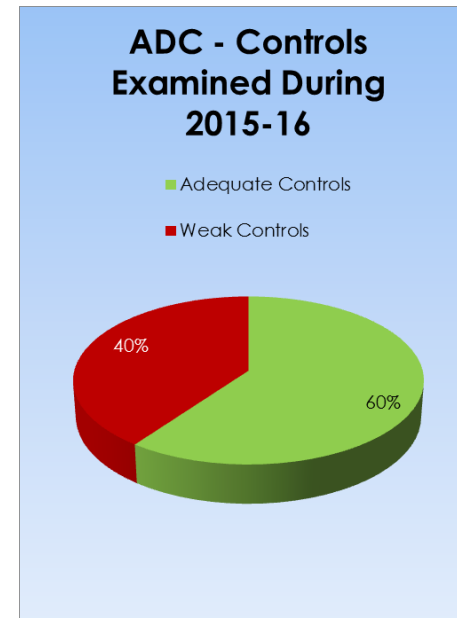
Ashfield DC	2015-16
Evaluated Controls	308
Adequate Controls	185
Weak Controls	123

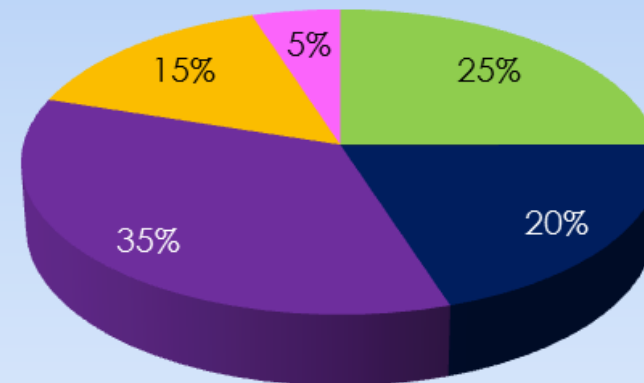# Ashfield District Council – Internal Audit Annual Report 2015-16

Audit Coverage

ADC - Coverage by Type of Audit 2015-16

- Key Financial
- Consultancy
- Investigation
- Risk Audit
- Governance
- IT Audit

15%, 15%, 5%, 10%, 25%, 30%
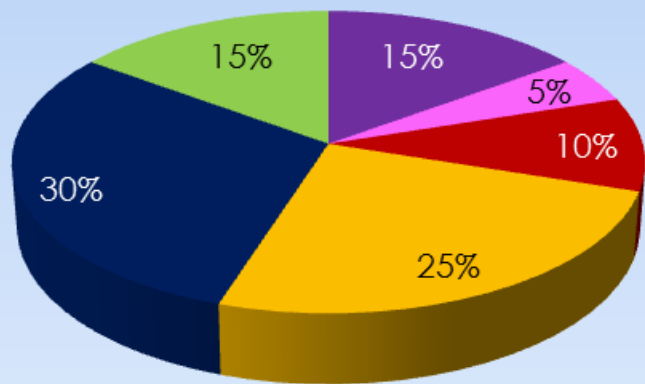
ADC - Coverage by Department 2015-16

- CORPORATE
- ACE
- DCE
- ECONOMY
- HOUSING

25%, 20%, 35%, 15%, 5%

Ashfield District Council – Internal Audit Annual Report 2015-16
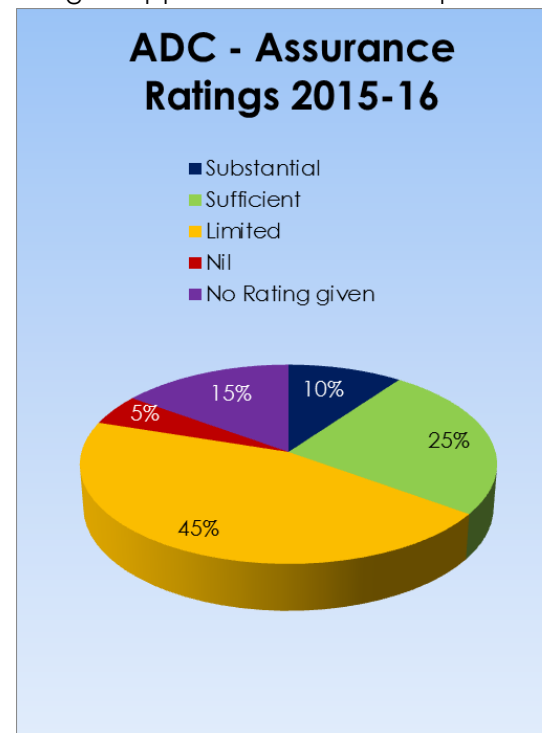
The Auditor's Opinion

The Auditor's opinion for the assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management relay and to establish the extent to which controls are being complied with. The table below explains what the opinions mean.

Level	Design of Control Framework	Compliance with Controls
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 absence of key internal controls.	There have been significant and extensive breakdowns in the application of key controls
NIL	There is an absence of basic controls which results in inability to deliver service objectives.	The fundamental controls are not being operated or complied with.

Table 1: Summary of Audit Opinions 2015/16

Category of Assignment	Substantial	Sufficient	Limited	Nil	No Rating Given	Total
Key Financial	1	2	0	0	0	3
Investigation	0	0	0	0	2	2
IT Audit	0	0	3	0	0	3
Governance	1	2	3	0	0	6
Consultancy	0	0	0	0	1	1
Risk Audit	0	1	3	1	0	5
Total	**2**	**5**	**9**	**1**	**3**	**20**

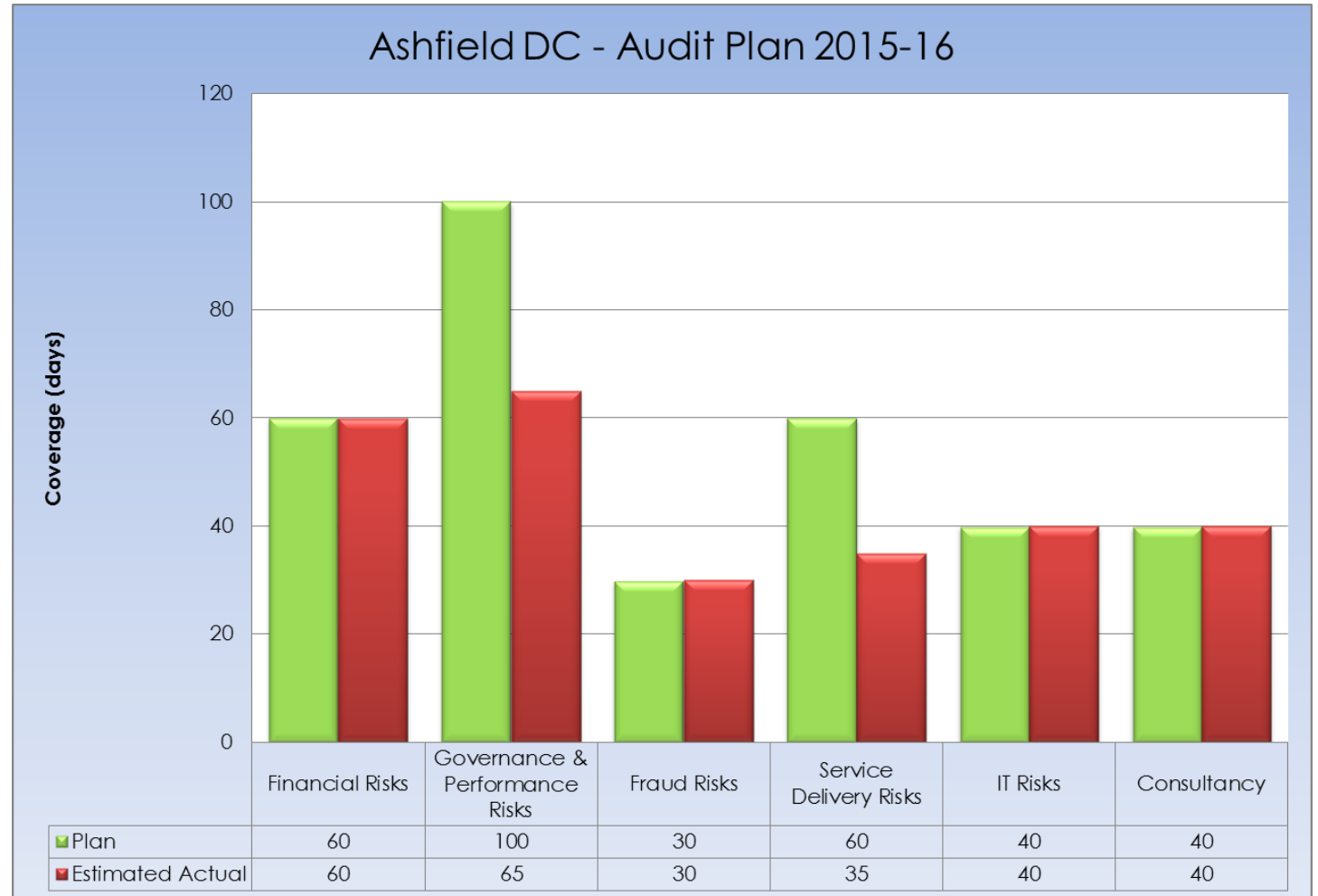The map of assurance provided by completed assignments reflects a changed approach to the development of the Annual Audit Plan. In previous years the majority of planned assignments have focussed on the Council's key financial systems and confirmed that the Council maintains a consistently effective framework of financial controls. The Plan for 2015/16 has, instead, addressed managers' needs for assurance about customer facing services by including a significant number of assignments in areas which have never previously been audited.

ADC - Assurance Ratings 2015-16

- Substantial
- Sufficient
- Limited
- Nil
- No Rating given

10%
25%
45%
5%
15%

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Performance Measures

Service Delivery (% of Audit Plan Completed)

From the limited information available, it has been estimated that approximately 82% of the Council's 2015-16 Audit Plan has been delivered.

In future CMAP will provide a more detailed breakdown of Audit work and the team's performance. At the end of each month, CMAP staff will provide the Audit Manager with an estimated percentage complete figure for each audit assignment they have been allocated. These figures are used to calculate how much of each organisation's Audit Plans have been completed to date and how much of the CMAP's overall Audit Plan has been completed.

Ashfield DC - Audit Plan 2015-16

Coverage (days)

	Financial Risks	Governance & Performance Risks	Fraud Risks	Service Delivery Risks	IT Risks	Consultancy
Plan	60	100	30	60	40	40
Estimated Actual	60	65	30	35	40	40

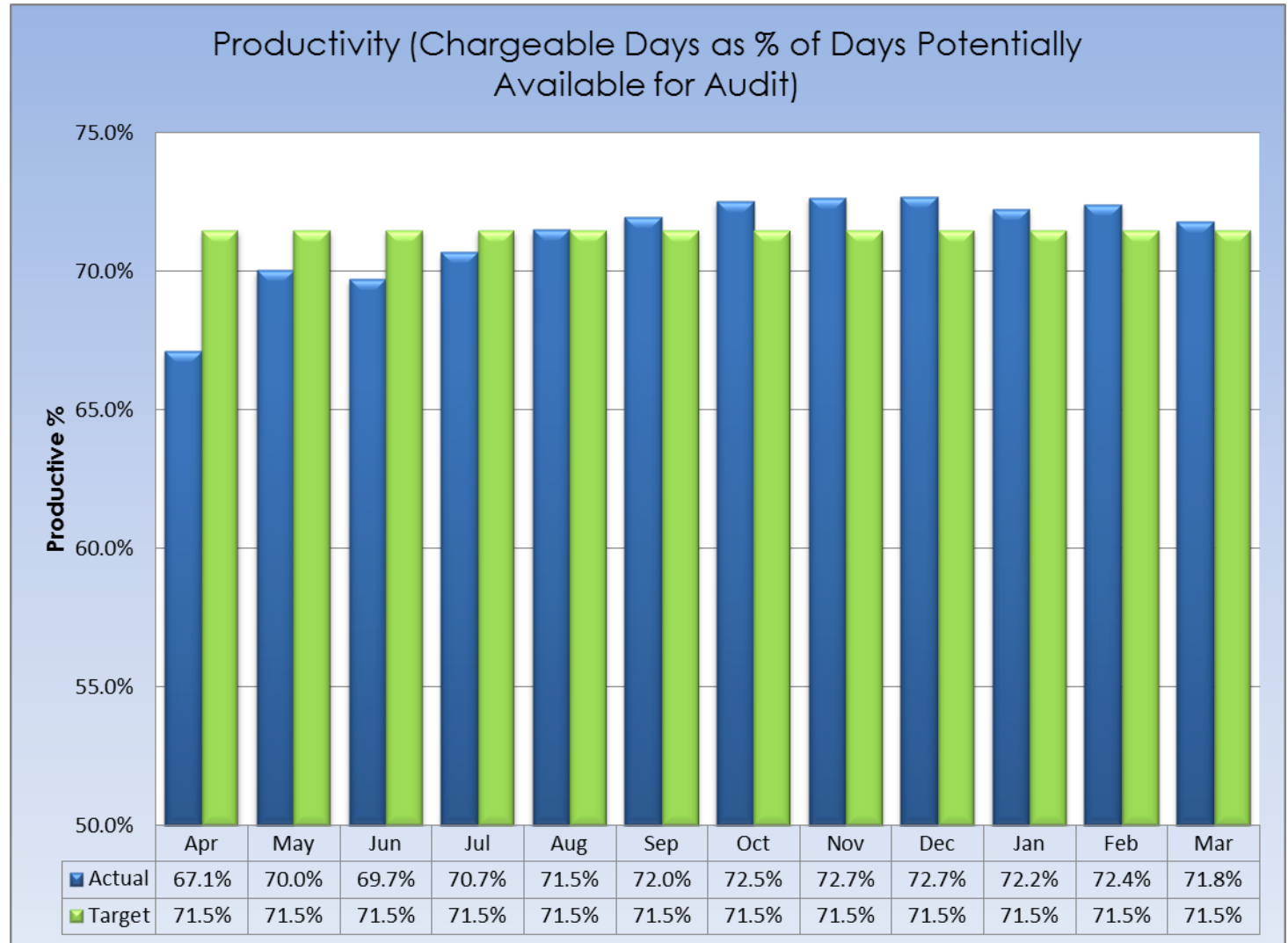# Ashfield District Council – Internal Audit Annual Report 2015-16

Performance Measures

Productivity (Chargeable Days as % of Days Potentially Available for Audit)

Audit staff record the time they spend on audit assignments, administration and management in our bespoke database. Every minute worked is logged against an appropriate code. This time is analysed and compared to planned audit work

Time is analysed between Productive and Non-productive time. We aim to achieve a target productive rate of 71.5% for the year. The average productive rate for the year was 71.8%.

The chart opposite shows how the productivity of the team has fluctuated over the year.

Productivity (Chargeable Days as % of Days Potentially Available for Audit)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Actual	67.1%	70.0%	69.7%	70.7%	71.5%	72.0%	72.5%	72.7%	72.7%	72.2%	72.4%	71.8%
Target	71.5%	71.5%	71.5%	71.5%	71.5%	71.5%	71.5%	71.5%	71.5%	71.5%	71.5%	71.5%

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Customer Satisfaction Returns

Under the Council's previous interim management arrangements for Internal Audit, Customer Satisfaction Questionnaires were not completed. Accordingly, we are unable to present any feedback on the Audit assignments delivered to the Council during 2015-16.

In future, CMAP will send out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. The chart across provides an indication of the future satisfaction levels that can be expected by the Council. It shows the average score for each category from the 82 responses received in 2015-16 from all our customers. The average overall score from all surveys was 49.5 out of 55. The lowest score received from a survey was 36, while the highest was 55.

The overall responses are graded as either:

- Excellent (scores 46 to 55)

- Good (scores 38 to 46)

- Fair (scores 29 to 37)

- Poor (scores 20 to 28)

- Very poor (scores 11 to 19)

Overall 60 of 82 responses categorised the audit service they received as

excellent, another 21 responses categorised the audit as good and 1 categorised the audit as fair. There were no overall responses that fell into the poor or very poor categories.

CMAP
Customer Satisfaction Survey Results from 1 Apr 2015 to 31 March 2016
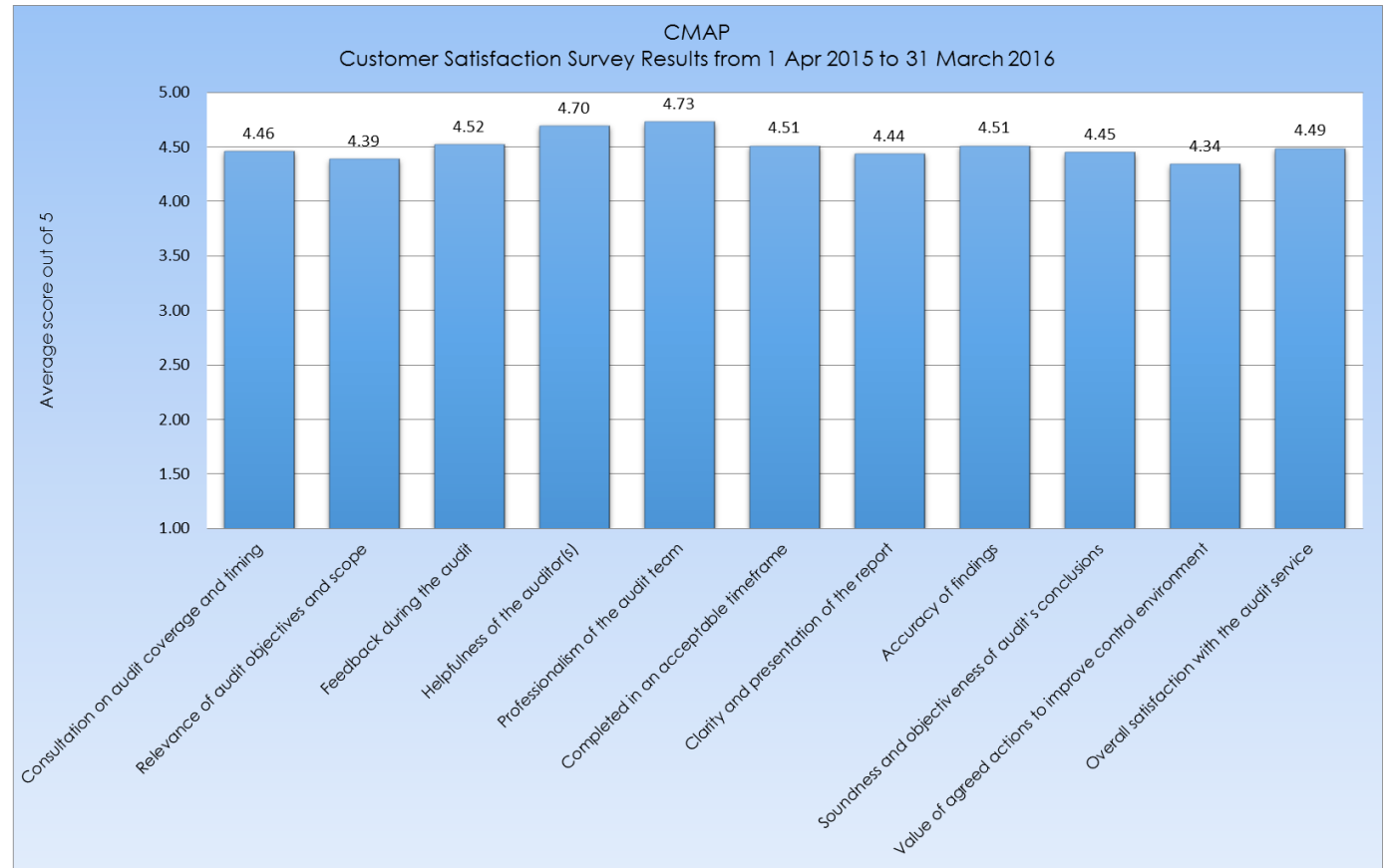
# Ashfield District Council – Internal Audit Annual Report 2015-16

Audit Recommendations

Level	Definition
HIGH	High priority recommendations will need implementing immediately. If a recommendation is not implemented within 3 months of the agreed date the implications of non-implementation will be reported to the Audit Committee.
MEDIUM	Medium priority recommendations will need implementing within 3 months. If a recommendation is not implemented within 6 months of the agreed date the implications of non-implementation will be reported to the Audit Committee.
LOW	Low priority recommendations will need implementing within 6 months. If a recommendation is not implemented within 9 months of the agreed date the implications of non-implementation will be reported to the Audit Committee.

In future, to help management schedule their efforts to implement our recommendations or their alternative solutions, we have risk assessed each control weakness identified in our audits. For each recommendation a judgment was made on the likelihood of the risk occurring and the potential impact if the risk was to occur. From that risk assessment each recommendation has been given one of the following ratings:

- **Critical risk**.
- **Significant risk**.
- **Moderate risk**.
- **Low risk**.

These ratings provide managers with an indication of the importance of recommendations as perceived by Audit; they do not form part of the risk management process; nor do they reflect the timeframe within which these recommendations can be addressed. These matters are still for management to determine.

ADC - Recommendations Made During 2015-16

- High
- Medium
- Low

High 26%
Medium 47%
Low 27%
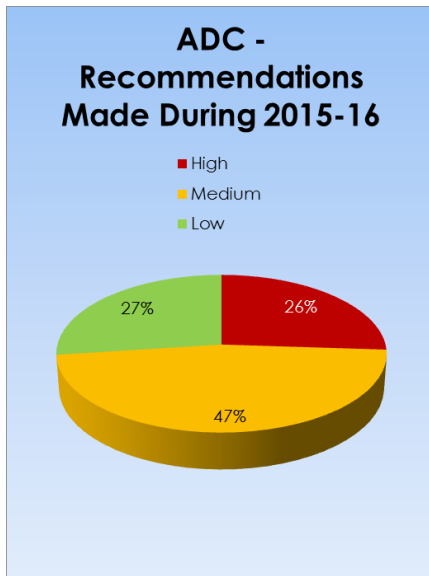
If a recommendation is so complex or makes such demands on management resources that the normal recommendation deadline cannot reasonably be met, an alternative target will be agreed.

Recommendations	2015-16
High	25
Medium	45
Low	26
Total	**96**

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Recommendations Action Status

During 2015-16, audit recommendations were monitored by the Council's Covalent system. For 2016-17 Internal Audit will send emails, automatically generated by our recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We will request an update on each recommendation's implementation status, which will be fed back into the database, along with any revised implementation dates.

Each recommendation made by Internal Audit will be assigned one of the following "Action Status" categories as a result of our attempts to follow-up management's progress in the implementation of agreed actions. The following explanations are provided in respect of each "Action Status" category:

- **Implemented** = Audit has received assurances that the agreed actions have been implemented.
- **Being Implemented** = Management is still committed to undertaking the agreed actions, but they have yet to be completed. (This category should result in a revised action date).
- **Superseded** = Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.
- **Accept Risk** = Management has decided to accept the risk that Audit has identified and take no mitigating action.
- **Action Due** = Audit have been unable to ascertain any progress information from the responsible officer.
- **Future Action** = The recommendations haven't reached their agreed action date

A summary of our limited knowledge of the action status of recommendations made in 2015-16 is shown in the table across.

ADC - 2015-16 Recommendations Status

- Implemented
- Risk Accepted
- Action Due
- Future Action

75% Implemented, 20% Future Action, 4% Action Due, 1% Risk Accepted