

Local Members Interest	
	N/A

Audit and Standards Committee – 27th June 2016

Internal Audit Outturn Report 2015/16

Recommendation

1. To receive the outturn report containing the annual internal audit opinion for 2015/16.

Report of the Director of Finance and Resources

Background

2. This report outlines the work undertaken by Internal Audit in respect of the 2015/16 annual plan.
3. Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements, i.e. the control environment of the organisation. Internal audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.
4. Internal Audit is required by professional standards, i.e. UK Public Sector Internal Audit Standards (PSIAS), to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. In accordance with these requirements the Head of Internal Audit must provide an annual opinion that covers the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:
 - The opinion;
 - A summary of the work that supports the opinion; and
 - A statement on conformance with PSIAS and the Local Government Application Note (LGAN), highlighting any areas of non-conformance.
5. The underlying principles to the 2015/16 plan were outlined in the Audit Plan paper presented to and approved by Members of the Audit & Standards Committee on 30 June 2015. Since the original plan was approved a number of additional audits have been required, whilst some planned reviews were no longer needed and several deferred due to operational requirements. The net effect is that the key performance target has been achieved. Work is scheduled to meet the requirements of the business area to ensure the greatest benefit is achieved from the audit work. Therefore it is not uncommon for reports to be at draft report stage at the end of the audit year.

¹ Public Sector Internal Audit Standards definition of Internal Auditing.

6. Audit opinions are awarded for individual systems and compliance audits within one of the following categories:
- Substantial Assurance
 - Adequate Assurance
 - Limited Assurance
7. Paragraph 9 provides a high level summary of the work undertaken by the Section analysed by the following categories:
- Main Financial Systems
 - High Risk Auditable Areas
 - Systems Audits (reported by exception, i.e. only those with “Limited Assurance” and/or those with a High Level Recommendation)
 - Compliance Reviews
 - Financial Management in Maintained Schools
 - Special Investigations/ fraud and corruption arrangements.
8. For those areas awarded ‘Limited Assurance’ action plans have been or are in the process of being agreed with the relevant Director /Head of Service. During 2015/16 Members of the Audit & Standards Committee have continued to receive full copies of all “Limited Assurance”, High Risk Auditable areas (regardless of opinion) and Major Special Investigation reports (i.e. greater than £10,000 financial loss/Significant Corruption issues) once finalised. Relevant managers have attended the Committee to provide assurance that appropriate action has been taken regarding the implementation of recommendations. Members of the Audit & Standards Committee have requested, where appropriate for additional follow up work to be included within the 2016/17 plan and the results to be reported back to the Committee. Internal Audit will continue to track and report on the implementation of High Level Recommendations, including those contained within reports awarded “Adequate Assurance”.

9. 2015/2016 Audit Plan Outcomes

9.1 Main Financial Systems

Coverage of these areas is in line with the annual internal/ external audit protocol presented annually to the Committee.

Main Financial System	2012/13 Opinion	2013/14 Opinion	2014/15 Opinion	2015/16 Opinion	Direction of Travel
Payroll	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pensions Payroll	NA	NA	Adequate Assurance	Substantial Assurance	↑
Pension Fund – Custodian, Investment Managers and Pensions Property including the Governance arrangements.	Not covered in 12/13	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Budgetary Control	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→

Pension Fund – Pension Administration	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Accounts Payable	Not covered in 12/13	Not covered in 13/14	Adequate Assurance	Not covered in 15/16	→
Accounts Receivable	Not covered in 12/13	Substantial Assurance	Not covered in 14/15	Adequate Assurance	↓
Debt Recovery (Legal Services)	Limited Assurance	Adequate Assurance	Adequate Assurance	Adequate Assurance	→
E- Payments	Adequate Assurance	Adequate Assurance	Adequate Assurance	Not covered in 15/16	→
Cheque Control	Not covered in 12/13	Not covered in 13/14	Substantial Assurance	Not covered in 15/16	↑
Main Accounting	Not covered in 12/13	Substantial Assurance	Not covered in 14/15	Substantial Assurance	→
SAP Enterprise	Substantial Assurance (Follow Up)	Not covered in 13/14	Project work re new system	Limited Assurance	↓
Fixed Asset Register & Capital Accounting	Substantial Assurance	Substantial Assurance	Not covered in 14/15	Not covered in 15/16	→
Treasury Management & Financial Director	Substantial Assurance	Substantial Assurance	IT system – Adequate Assurance	Substantial Assurance	↑

There has been one Limited Assurance report issued for the main financial systems areas in 2015/16.

System Area	Areas for Improvement
SAP Enterprise (Electronic Ordering System) (Limited Assurance)	<ul style="list-style-type: none"> The Procurement and Financial Regulations are out of date. In addition, there has been no recent training and from our testing there appears to be limited awareness of their contents as well as areas of non-compliance. Retrospective orders are regularly raised across the Council and invoices are paid prior to goods received notes being entered.

In addition to those reports with an opinion of at least “Adequate” for each financial system, two High Level Recommendations were made as follows:

System Area	Areas for Improvement
Accounts Receivable - (Adequate Assurance)	<ul style="list-style-type: none"> The need to agree and implement a debt recovery process for public/health authorities.
Debt Recovery - (Adequate Assurance)	<ul style="list-style-type: none"> The need to ensure that there is a structured, prioritised and timely approach to the recovery of debt. This recommendation has been raised previously when responsibility for the management of this process was undertaken by Legal Services.

Note: There can be a maximum of one high level recommendation contained in a report awarded Adequate Assurance.

9.2 High Risk Auditable Areas

System Area	2015/16 Opinion	2015/16 Consultancy
Care Act Requirements – Stock Take		√
**Care Act Requirements - Prisoners	Limited Assurance	
Staffordshire & Stoke on Trent Partnership Trust – Transformational Programme		Reliance placed on Third Party Assurance Provider
Staffordshire & Stoke on Trent Partnership Trust – Contract Monitoring and Performance		Reliance placed on Management Evaluations undertaken in year
Better Care Fund	Verification of the section 256 grant monies – unqualified opinion issued.	
Infrastructure Plus – Payment Mechanism		√
HR Transformation Project	Adequate Assurance	
SAP Replacement including Core +	Adequate Assurance	
Economic Regeneration		√
European Structural & Investment Funding Project	Substantial Assurance	
**Care Director – ICT Application Review	Adequate Assurance	
Child, Safety and Exploitation	Substantial Assurance	
**Strategic Property Partner Review	Delayed due to staffing changes within Property Division	

** Currently at draft report stage, therefore the high level recommendations have not been included within this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee.

Assurance could not be provided regarding the operation of the following control objectives:

System Area	Areas for Improvement
Care Act Requirements - Prisoners	<ul style="list-style-type: none"> Accountability for the provision of care within prisons and approved premises will be allocated as part of the ongoing review of the social care service within Staffordshire County Council, however, interim arrangements for overseeing and developing the service provision for prisoners requires formalisation and communication to ensure that key activities and relationships are maintained, subsequent to the departure of the Head of Public Sector Commissioning Partnership. A dedicated social work team for the provision of services to Prisons and Approved Establishments has been developed; however, both of the social workers have left, or are leaving the organisation. This will result in a decrease in knowledge and also potential impact on the strong relationships currently in place with the establishments and service users. At the time of the audit fieldwork, options were being considered as to the approach to be undertaken for the provision of social work resources going forward, however, a final decision had not been reached. It should be ensured that the approach undertaken to provide social worker support is determined and applied to ensure compliance with the Care Act is maintained.

9.3 Systems Audits – (reported by exception, i.e. only those with Limited Assurance and/or those with a High Level Recommendation)

System Area	2015/16 Opinion
Deprivation of Liberty Safeguards (DoLS)	Limited Assurance
Deputyships	Limited Assurance
Adult Financial Services Team - Deferred Payment Agreements for Care Costs SSOTP	Limited Assurance
Procurement (Outside of Staffordshire Procurement)	Limited Assurance
Oracle Database System Management	Limited Assurance
Looked After Children - Business/Placement Unit : Independent Foster Agencies - Contracts & Monitoring	Limited Assurance
Special Educational Needs Transport	Limited Assurance
Disclosure & Barring Service (DBS Review) - Taxi Drivers and Escorts	Limited Assurance
Compromise Agreements	Limited Assurance
Purchasing Card – Central Through Care Team	Limited Assurance

Assurance could not be provided regarding the operation of the following control objectives:

System Area	Areas for Improvement
Deprivation of Liberty Safeguards (DoLS)	<ul style="list-style-type: none"> • Non-compliance with statutory timescales. • Evidence to support the use of suitable Best Interest Assessors (BIA's) and Mental Health Assessors (MHA's) was not comprehensive and therefore compliance with the requirements of the Mental Capacity Regulations 2008 could not be confirmed. In addition, a process for obtaining information that needs to be submitted on an annual basis also needs to be determined. Issues were also identified in relation to Disclosure and Barring Service checks as well as the review and electronic retention of documentation received.
Deputyships	<ul style="list-style-type: none"> • A number of service users were in receipt of income assessed benefits when their capital balances exceeded the DWP threshold for entitlement, meaning that they should not have received the benefit. • Despite assurances previously received and a revised management process being devised w.e.f March 2016, appropriate management checks had not been conducted. • A number of accounts reviewed had been unallocated to an individual to manage and a number included being unallocated for more than six months.
Adult Financial Services Team - Deferred Payment Agreements (DPA) for Care Costs	<ul style="list-style-type: none"> • The Deferred Payment Scheme does not indicate SCC's policy for; eligible service users who have an existing mortgage, whether there will be an interest charge on the deferred costs and any fee to be applied for administering the DPA scheme. • There is a lack of a clear process in place to accommodate cases where the service user has capacity problems and/or where the family are seeking Deputyship arrangements. • Debt should be secured against the service user's property in a timely manner. • The need to ensure that an annual reconciliation process takes place and that appropriate follow-up action is taken.

<p>Procurement (Outside of Staffordshire Procurement)</p>	<ul style="list-style-type: none"> Managers have failed to consult the Commercial Team (where appropriate) for advice leading to a failure to apply Procurement Regulations which exposes the Council to unacceptable levels of risk. Testing found that two contracts for the David Lewis Centre residential placements could not be located at the time of the audit. Thus there is a need to ensure that all live contracts are retrievable. Clarification is needed to ensure the contract in place with Advanced Childcare does not need to be novated to Cambian. Fee structures need to be formalised for some of the LD residential placements at the David Lewis Centre and going forward there is a need to eliminate care arrangements being made "off contract".
<p>Oracle Database System Management</p>	<ul style="list-style-type: none"> The need to regularly review Oracle user access rights. The need to implement password ageing and history for the Oracle database platform. The need to enable the Password Verify Function to enforce password complexity and minimum length. The need to ensure all database accounts are disabled after repeated failed logins. The need to regularly review user access to the DBA Role superuser access rights platform. The need to ensure all Oracle production databases are subject to regular internal vulnerability scanning. The need to ensure that adequate logical protection is invoked on the database Listener account. The need to ensure that all critical Oracle security patches are promptly tested and installed.
<p>Looked After Children - Business/Placement Unit : Independent Foster Agencies - Contracts & Monitoring</p>	<ul style="list-style-type: none"> Placements and payments are being made to some IFA's with no signed contracts in place for both spot contracts and framework agreements. No contract monitoring is undertaken in accordance with the contract conditions for all contract types.
<p>Special Educational Needs Transport</p>	<ul style="list-style-type: none"> From a sample of 30 drivers, we found that the majority of drivers were DBS cleared prior to their start date with the contractor. Within each taxi contract provided by the Council, it clearly stated that drivers should be PCV cleared through the contractor i.e. the contractor is duty bound to undertake a DBS check themselves and not rely on DBS check obtained by a driver prior to their employment with the contractor. Therefore the finding here is that the DBS check in most cases has been obtained from a previous employer and is not re-checked by the contractor employed by the Council. From a sample of 30 drivers we did not have sight of the actual DBS certificate therefore, we could not assess the contractors' assessment of suitability and whether this is in line with the Council's expectations.
<p>Disclosure & Barring Service (DBS) Review - Taxi Drivers and Escorts</p>	<ul style="list-style-type: none"> Inconsistent practices in applying DBS checks amongst Local Licensing Authorities are in place. It was identified that in some areas Authorities may permit a badge where there are no disclosures within the last five years from the DBS check and other areas will not accept an driver if there are any disclosures whether they occurred in the last five years or not. Insufficient DBS checks placed upon drivers of Passenger Carrying Vehicles (PCVs). As per the conditions of contract every contractor is required to undertake a DBS check for all PCV drivers. There is a risk that an appropriate level of assurance over an individual's background is not independently assessed via a DBS check. Framework contract contractors may not be applying safeguarding checks. On the framework contract held with various taxi contractors the contractor must complete their own

	safeguarding checks i.e. undertake safeguarding training for their staff or undertake DBS checks. There is not confidence amongst the Transport Team that these checks are being applied in full for all contractors particularly over smaller contractors.
Settlement Agreements	<ul style="list-style-type: none"> • The need to ensure that payments in respect of Settlement Agreements are properly coded and accounted for. • The need to ensure that Settlement Agreements are supported by appropriate documentary evidence. • The need to ensure that Senior Management and elected members receive timely reports and in doing so have sufficient opportunity to perform it's scrutiny role.
Purchasing Card – Central Through Care Team	<ul style="list-style-type: none"> • The arrangements for the security and use of the card were not in accordance with the terms and conditions of use or the guidance on the intranet. • Purchase card administration was not in accordance with procedures and processes found in Financial Regulations or the guidance on the intranet.

The following table lists those systems audits where High Level Recommendations have been made to address control weaknesses within Adequate Assurance reports.

System Area	Areas for Improvement
Director of People role -Test of Assurance	<ul style="list-style-type: none"> • Strengthening the line of accountability to the Local Member for Children Services (LMCS): The statutory guidance states that '<i>Local authorities must ensure that there is both a single officer and single elected member responsible for both education and children's social care. There should be a clear and unambiguous line of local accountability.</i>' The LMCS' current portfolio of responsibilities as detailed within the Constitution does not include education, apart from special education needs.
Evolve - Social Work Practice	<ul style="list-style-type: none"> • This relates to the completion of care/pathway plans and statutory visits where a number of issues have been identified relating to the availability and completion of documentation, compliance with statutory timescales and bed checks, compliance with the recording policy and delays in the approval of documentation by the Practice Lead.
Capital Programme in Schools	<ul style="list-style-type: none"> • It is important that the Staffordshire Learning Infrastructure Framework (SLIF) is finalised and formally adopted by the County Council.
Education Welfare - Attendance and Welfare	<ul style="list-style-type: none"> • The Families First Local Support Teams have not formally considered and documented (in a risk register) the risks to achieving their objectives including compliance with statutory duties.
Single Local Growth Fund (year 1) - Economic Regeneration Capital Schemes	<ul style="list-style-type: none"> • Some Risk Registers were found to be incomplete, containing insufficient details to assess the risks identified as well varying in format from project to project.
Household Waste Recycling Centres	<ul style="list-style-type: none"> • At the time of the audit, the contract was not formally executed, as the contract had not been dated and brought into effect. The Legal Services Team was working to address the issues which have delayed its implementation, but no firm date for completion had been given. In the meantime, a Letter of Intent is being used to demonstrate a commitment of all parties to adhere to the terms of the proposed contract.
Concessionary Fares Travel Schemes (Young Persons & Elderly)	<ul style="list-style-type: none"> • The Council have recently obtained access to the HOPS (host operator processing system) system which will allow sight of all smart card data directly from electronic reading devices on every bus where the scheme is smart card enabled (this currently therefore only applies to the ENCTS (English national concessionary travel scheme) and not the YSC (your Staffordshire card) scheme). However, the HOPS system is

	not currently operating and until such time that it is in operation, this means the Council cannot efficiently verify bus operator data for every transaction other than by adopting a sampling approach via conducting a programme of surveys.
Cannock Chase Joint Economic Investment Programme	<ul style="list-style-type: none"> Confirmation be obtained that Cannock Chase District Council will act as the accountable body as stated in the Cabinet paper on 20 June 2013 and as they effectively manage the spend and bank account for this money, the balances on this bank account should be included within their formal accounts.
Altair Pensions Payroll	<ul style="list-style-type: none"> Separate import and export routines to be used by Staffordshire ICT to extract data from Altair and remote access from external databases, should be prescribed. It is recommended that this issue is also noted in an IT risk log until the issue with Legacy coding in Altair is resolved.
IT Stores	<ul style="list-style-type: none"> The SAP stock control system is not fit for purpose with the key concerns relating to the accuracy of stock records and the stocktaking process.

Note: There can be a maximum of one high level recommendation contained in a report awarded adequate assurance.

9.4 Compliance Reviews

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
Other Compliance - Children's				
Pupil Referral Units (PRUs)	0	2	0	2
Res Children's Centres/Assess	0	1	0	1
Families First District Offices	1	1	0	2
Other Compliance - Adults				
LD - Residential Homes	1	0	0	1
LD - Day Services	1	1	0	2
Comforts Funds	25	0	0	25
Other Compliance				
Register Offices	0	4	0	4
Educational Endowment Funds	5	0	0	5
Compliance Reviews	33 (79%)	9 (21%)	0 (0%)	42

The reviews identified non-compliance with key controls in the following areas:

- Imprest account reconciliation is not undertaken regularly or correctly. (four establishments)
- No evidence that inventory is being checked on an annual basis in accordance with Financial Regulations. (three establishments)
- Procurement card transactions are not supported by appropriate documentation. (two establishments)
- Income not banked promptly in accordance with Financial Regulations. (one establishment)
- Scheme of Delegation requires amendment as it is out of date. (two establishments)
- Lettings are not administered appropriately. (one establishment)

9.5 Financial Management in Maintained Schools

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
Schools Compliance – High Schools	1	5	1	7
Schools Compliance – All other schools	2	17	1	20

Community Facilities income themed review	1	14	0	15
TOTAL	4 (9%)	36 (86%)	2 (5%)	42

The reviews identified non-compliance with key controls in the following areas:

Schools – General Compliance

Governance

- Board of Governors minutes do not identify whether there has been a review/approval of all sub-committee minutes. (three establishments)
- Scheme of Delegation requires amendment. (nineteen establishments)
- No debt recovery policy. (seven establishments)
- School Fund not audited in accordance with requirements of Financial Regulations. (six establishments)
- Pecuniary interest register not completed for all appropriate staff and governors.(five establishments)

Income

- Income is not banked promptly and/or intact. (five establishments)
- Lettings are not administered appropriately. (thirteen establishments)
- Income is not receipted in accordance with Financial Regulations. (four establishments)
- There is a lack of separation of duties in the income and banking process. (ten establishments)
- Cash is not held securely and/or may not be held in accordance with SCC Insurers cash holding limits. (seven establishments).

Procurement

- No financial limits set for declared pecuniary interest in companies. (three establishments)
- Procurement/procurement card transactions not in accordance with Scheme of Delegation and Procurement Regulations. (thirteen establishments)
- Purchase card is not used in accordance with the Financial Regulations. (eight establishments)
- Incorrect accounting for VAT. (six establishments)

Imprest Accounts

- There is no independent reconciliation of the imprest account. (seven establishments)

Schools - Community Facilities

Governance

- No approved debt recovery policy. (seven establishments)
- No Data Protection registration. (one establishment)

Income

- There is a lack of a separation of duties for the receipt and banking of income. (five establishments)
- Income not receipted in accordance with Financial Regulations. (seven establishments)
- Income is not held securely. (three establishments)
- There is no independent reconciliation between sessions received to invoices raised and income received. (three establishments)

Operational

- Bookings are not administered appropriately. (ten establishments)
- Charges and contracts are not reviewed annually and discounts not approved. (seven establishments)

- Parents/Carers do not sign their children into and out of Before and After School Clubs. (five establishments)
- Attendance registers are not appropriate or completed accurately. (five establishments)
- No record of staff on premises maintained. (three establishments)

9.6 Special Investigations/ Fraud & Corruption Arrangements

A summary of work undertaken in relation to fraud and corruption and specific counter fraud testing is attached as Appendix 1 in the confidential part of the agenda. Overall, the counter fraud and corruption work carried out in 2015/16 indicated that there had been some lapses in the application of controls, increasing the risk of potential fraud. The table below summarises those investigations which involved confirmed financial loss. Reports have been issued to ensure that the control weaknesses have been addressed and re occurrence prevented.

Area	Financial Value £	Control Objective
Investigations Complete		
Primary School	1,564	Misappropriation of cash
Property held	7,300	Misappropriation of cash
NFI* Identified Losses	3,394	Deceased Pensioners Payments
NFI* Identified Losses	20,242	Pensioners to Payroll
NFI* Identified Losses	40,615	Duplicate Payments
Total	73,115	

**NFI = National Fraud Initiative. This is a national exercise currently administered by the Cabinet Office. Data submitted by the Council which is crossed checked against other public sector organisations' data highlighting potential areas of fraud. These are then investigated locally. Detailed reports are regularly reported to Members of the Audit & Standards Committee highlighting the results of this work.*

2015/16 has seen the level of complexity in the nature and type of special investigation and fraud and corruption related work referred to the Section for investigation remain the same as previous years. This year has seen a reduction in the amount of actual financial loss to the Council. The table below shows the trend of actual financial loss over the last five years. These types of investigation are very resource intensive particularly if the matter is referred to the Police for criminal action to be taken. In order to evaluate the effect this element of Internal Audit work has upon the wider control environment, a threshold of £250,000 financial loss per annum has been set. When this level is exceeded it is considered to have a material effect on the control environment. This year's level of actual financial loss is not considered to be significant.

Year	Financial Value	Direction of Travel
2010/11	163,932	↑
2011/12	179,312	↑
2012/13	29,831	↓
2013/14	101,753	↑
2014/15	94,140	↓
2015/16	73,115	↓

The special investigations category consists of two elements: firstly financial loss above £250,000 and secondly an evaluation of the control environment based on the counter fraud and corruption work outlined as a separate item on the agenda. Proposed percentage allocations are as follows:

Special Investigations		Fraud and Corruption Work	
£0 – below £50,000 loss	50%	Procurement /Contract arrangements	10%
£50,000 - £100,000 loss	40%	Physical Cash/Asset management arrangements	10%
£100,000 - £150,000 loss	30%	Payment mechanisms	10%
£150,000 - £250,000 loss	20%	Payroll /Expenses	10%
Above £250,000 loss	10%	Income	10%

Based on the above criteria the overall score awarded for this category is 80% (i.e. 40% for the special investigations elements as the actual financial loss incurred is between £50,000 - £100,000 and 40% awarded for the fraud and corruption elements based on the details outlined in the report contained in the confidential agenda).

10. Overall Opinion on the Control Environment

Following discussion at the Audit & Standards Committee at its meeting on 30 July 2012, it was agreed to endorse the methodology outlined below which was used as the basis to form the annual assessment of the overall internal control environment. It is not proposed to amend this method for the 2015/16 assessment.

Current Methodology

Each separate category of audit work is assessed against a benchmark of achieving a score of at least 90% of the total number of audits performed being awarded an opinion of “Adequate or above” within each category. For a reason of simplicity, each category attracts equal weighting and a simple pass / fail assessment is used to differentiate the overall opinion between “Substantial, Adequate and Limited” as illustrated below:

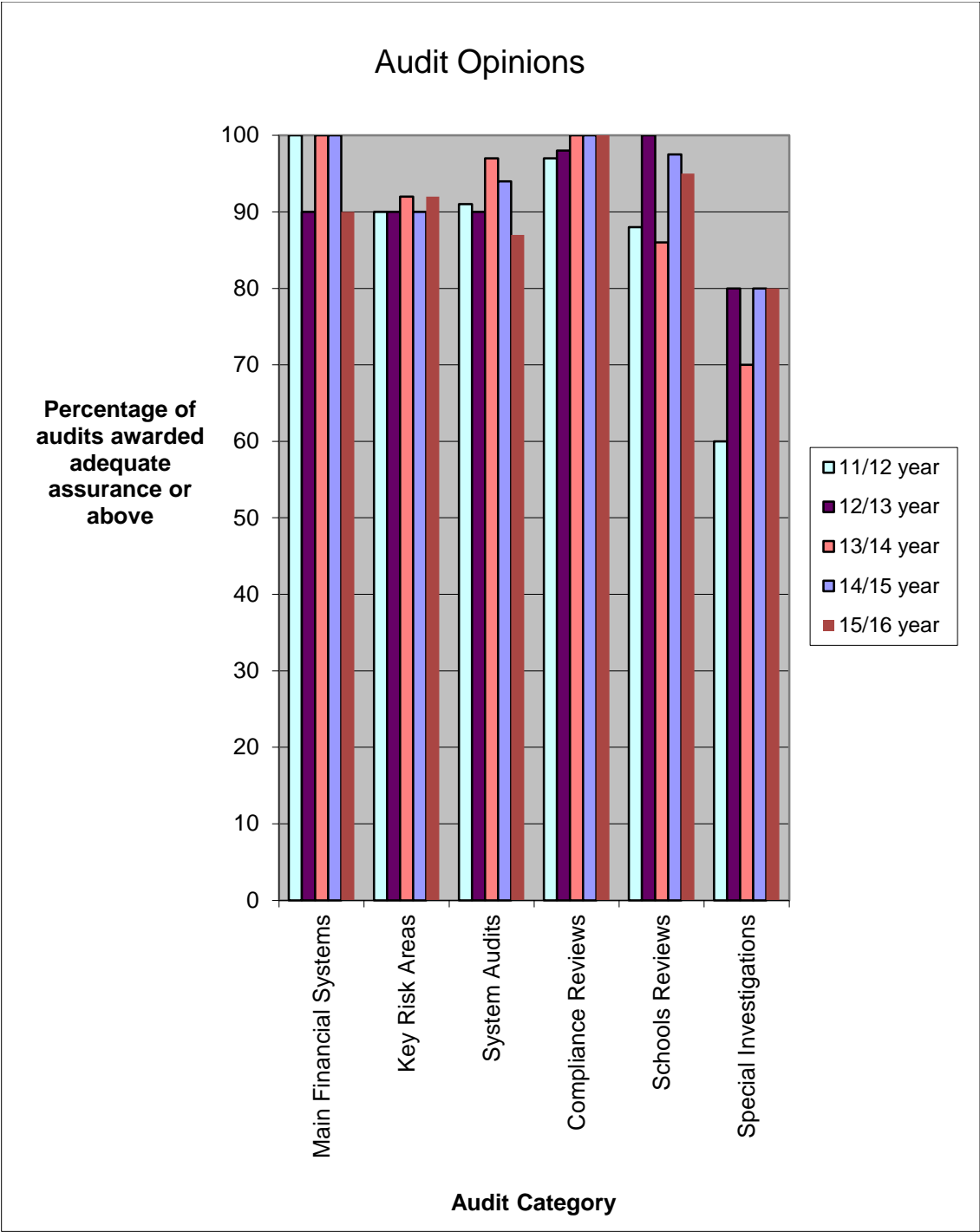
Overall Opinion Level	No of categories achieving the 90% benchmark
Substantial Assurance	6 out of the 6 categories
Adequate Assurance	4 or 5 out of the 6 categories
Limited Assurance	3 and below out of the 6 categories

Implications

The following table details the calculation of the 2015/16 overall assessment.

Audit Category	% awarded an opinion of at least “adequate”	Pass/Fail
Main Financial Systems (<i>paragraph 9.1</i>)	90%	Pass
Key Risk Areas (<i>paragraph 9.2</i>)	92%	Pass
System Audits (<i>paragraph 9.3</i>)	87%	Fail
Compliance Reviews (<i>paragraph 9.4</i>)	100%	Pass
Schools Reviews (<i>paragraph 9.5</i>)	95%	Pass
Special Investigations/Fraud & Corruption work (<i>paragraph 9.6</i>)	80%	Fail
Overall Total		4 out of 6 categories passed

The chart below details the audit opinions given to the key audit categories and provides a comparison with those awarded in 2011/12, 2012/13, 2013/14 and 2014/15.



Based on the above, an “Adequate Assurance” opinion has been given on the overall adequacy and effectiveness of the organisation’s governance, risk and control framework, i.e. the control environment in 2015/16. A number of audit reviews during 2015/16 have identified high level issues, which has resulted in the system being awarded a limited assurance opinion, in particular those areas reported in section 9.3. It is important that the key actions identified are implemented as agreed and progress monitored to ensure that the necessary steps have been taken to strengthen the control environment. This will be a key focus for the 2016/17 Internal Audit Plan.

11. Performance Measures

Key performance indicators (KPI) for the Section are detailed below. The Section has met its key performance target of more than 90% of reports being issued to draft report stage for both systems and compliance audits during 2015/16. The section continues to meet the KPI targets for the quality questionnaire feedback.

Description	Target %	2013/14 %	2014/15 %	2015/16 %
Reports issued to draft report stage:				
➤ Systems Audits***	90	95	96***	93
➤ Compliance Audits	90	97	88.5	99
Average score for Quality Questionnaires from clients is equal to or exceeds the 'good' standard:				
➤ System Audits	90	100	100	100
➤ Compliance Audits	90	100	100	100

*** The performance management targets have been calculated based on the revised audit plan presented to the Audit & Standards Committee on 8 December 2014.

12. Performance against the UK Public Sector Internal Audit Standards

The UK PSIAS came into force on 1 April 2013 with the aim of promoting further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. A Local Government Application Note has also been developed by CIPFA to provide further explanation and practical guidance on how to apply the standards.

The Internal Audit Service works to a Charter approved by the Audit & Standards Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way in which it interfaces with the Council. A detailed paper outlining how the Section meets the specific requirements of PSIAS & LGAN was presented to the Committee in June 2014. This is the third year of assessment and the results of the updated self-assessment exercise against the current standards are summarised below. It can be seen that 90% of the standards are deemed to be fully in place.

Process/Control			
In Place	Partially In Place	Not In Place	Not Applicable
278 (90%)	15 (5%)	12 (4%)	4 (1%)

For those areas of partial/non-compliance a detailed action plan has been produced, although none of these are considered to affect significantly the effectiveness of Internal Audit. The key areas for improvement identified at the June 2014 assessment have continued to be actioned during 2015/16 and progress is reported below:-

Action Points	Current Status
Determining the arrangements relating to the future five yearly external assessment;	A partnership approach to obtaining a suitable qualified independent person to conduct the external assessment has been taken with the other Public Sector bodies both within Staffordshire and neighbouring Counties. A suitably qualified external assessor has been appointed and detailed terms of reference for the quality assessment review will shortly be drafted and presented to the Audit & Standards Committee in September 2016. It is envisaged that the assessment will not take place before the start of the 2017 audit year; however this will still meet the PSIAS timescales.

The need to formalise Internal Audit's approach to using other sources of assurance i.e. assurance mapping;	Two pilot exercises have been undertaken, using two external clients to evaluate the approach to ensure that it is fit for purpose and can be rolled out across the client base. A number of refinements have been identified and will be looked into during 2016/17 as part of the approach to be taken for the County Council. This exercise will also need to take account of the work being performed within Risk Management to enhance the Strategic Risk Registers.
The need to review current reporting arrangements including a statement on conformance with the PSIAS on an annual basis.	An audit management software solution has been procured from Central Midlands Audit Partnership which will ensure that the PSIAS requirements are met. This is currently being rolled out and it is intended that this will become fully embedded during 2016/17.

A number of areas of non-conformance were highlighted as part of the self-assessment which will not involve any further action being taken namely:

- The Chief Internal Auditor (CIA) reports to the Head of Financial Strategy & Support who in turn reports to the Director of Finance & Resources rather than direct to the Chief Executive. Alternative reporting arrangements are detailed within the Audit Charter, should the need arise.
- The Audit & Standards Committee does not approve the Internal Audit budget. This is the responsibility of the Director of Finance & Resources via Full Council.
- The Audit & Standards Committee does not approve decisions relating to the appointment and removal of the CIA, this responsibility lies with the Head of Financial Strategy & Support in-conjunction with the Director of Finance & Resources.
- Neither the Chief Executive nor the Chair of the Audit & Standards Committee contribute to the performance appraisal of the CIA currently, responsibility for this area will remain with the Head of Financial Strategy & Support.

The work undertaken by the Internal Audit Section during 2015/16 and reported within the Annual Report has been performed in accordance with PSIAS. In relation to the above, at present the Chief Internal Auditor is responsible for co-ordinating and updating the Corporate Risk Register, this also includes the risk management policy document. These documents are reported to the Corporate Governance Working Group and Audit & Standards Committee. There are no further impairments or restrictions in scope which prohibit the CIA from delivering the annual Head of Internal Audit opinion for 2015/16.

13. Equalities Implications

There are no direct implications arising from this report.

14. Legal Implications

There are no direct implications arising from this report.

15. Resource and Value for Money Implications

The net budget of the Internal Audit Section is estimated at £575,200 of which £64,400 relates to payments to external providers.

16. Risk Implications

Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Corporate Risk Register.

17. Climate Change Implications

There are no direct implications arising from this report.

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List of Background Papers

Time Management System
Annual Audit Plan & Strategy 2015/16
2015 Audit Charter
Progress Reports to Audit Committee
Various Internal Audit Reports