

Committee: PERFORMANCE & AUDIT COMMITTEE

Agenda Item

Date: 16 May 2013

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**Title: Internal Audit Annual Report and Opinion
2012/13**

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Item for Information

Summary

1. The purpose of this report is to advise on the work carried out by Internal Audit during 2012/13 and provide an overall opinion on the Council's control environment for 2012/13. The report also shows the state of compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006 (The Code).

Recommendations

2. That Internal Audit coverage, the Internal Audit opinion and compliance with The Code are noted.

Financial Implications

3. None. There are no costs associated with the recommendations.

Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

The Internal Audit Work Programme 2012/13

Internal Audit Reports 2012/13

Internal Audit Progress Reports to Performance & Audit Committee 2012/13

Impact

- 5.

Communication/Consultation	The Internal Audit Reports referred to in this report have been circulated to Members This report has been discussed with the Corporate Management Team at its meeting 01 May 2013
Community Safety	none

Equalities	none
Health and Safety	none
Human Rights/Legal Implications	This report partly informs the Annual Governance Statement. The Statement is published to complement the Council's Statement of Accounts. This is a requirement set out in the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of an Annual Governance Statement.
Sustainability	none
Ward-specific impacts	none
Workforce/Workplace	none

Situation

6. Internal Audit is statutory service that forms part of the Council's corporate governance framework. The service is an assurance function that primarily provides an independent and objective opinion on the management of operational risk, control and governance.
7. The Internal Audit coverage for 2012/13 was delivered by the Council's in-house Internal Audit Team, which comprised the following full-time officers:
 - 1 x Internal Audit Manager
 - 1 x Internal Auditor
 - 1 x Internal Auditor (part-time 0.7 FTE)
8. Internal Audit work partly informs the Annual Governance Statement which is published to complement the Council's Statement of Accounts.
9. Throughout 2012/13 the Internal Audit Manager reported to Members of the Performance & Audit Committee details of work undertaken by Internal Audit since the previous meeting and on implemented and outstanding Internal Audit recommendations.
10. The Internal Audit Work Programme 2012/13 was a rolling programme of planned audit work subjected to regular reviews and updating at strategic points throughout the year to take into consideration changes in priority, auditor resource and additional unplanned time requirement.

- The first review was undertaken in July 2012 to bring in additional operational audits from the Audit Strategic Programme to ensure sufficient audit work in quarter 2;
- The second review was undertaken in September 2012 to allocate initial time to preliminary key financial work ahead of confirmation from the new External Auditor, Ernst & Young, of work that may be required under any new managed Audit Protocol for 2012/13;
- The third review was undertaken in December 2012 once confirmation was received from Ernst & Young of their audit intentions for 2012/13.

11. The initial Internal Work Programme for 2012/13 was drawn up in January 2012 on the basis of a resource of 2 full-time auditors and 1 part-time (0.7 FTE) auditor from 01 April 2012. The allocation of audit days are calculated as follows:

	<i>initial plan 01/12 days</i>	<i>1st revision 07/12 days</i>	<i>2nd revision 09/12 days</i>	<i>3rd revision 12/12 days</i>	actual days taken	diff between 3rd revision & actual
total days available	694	694	694	694	694	
less leave provisions - bank holidays; annual leave; statutory days and sick leave	-112	-112	-112	-112	-119	7
less Non-Audit Time - study leave and training; CPD; planning & management; administration; appraisals; team meetings etc	-134	-134	-134	-134	-150	16
total audit days available	448	448	448	448	425	
total audit days allocated	445				424	
<i>calculated as planned 2012/13 audit work</i>	305	370	390	333	302	
<i>plus productive total Non-specific audit work</i>	140	140	140	140	122	
<i>allocated as residual 2010/11 audit work</i>	5	5	5	5	9	4
<i>Follow-up work</i>	10	10	10	10	4	-6
<i>Irregularity Provision</i>	25	25	25	25	11	-14
<i>Consultancy & General Advice</i>	34	34	34	34	27	-7
<i>Committee & Member Related work</i>	20	20	20	20	24	4
<i>Contribution to Corporate Management</i>	20	20	20	24	18	-6
<i>NFI Key Contact & other fraud related work</i>	15	15	15	15	20	5
<i>Other- e.g Audit Commission liaison</i>	11	11	11	7	9	2

2012/13 Non-Audit Time

12. At 31 March 2013, Non-Audit Time accounted for a total of 150 days against the revised allocated 134 days (+16).

Residual 2010/11 Audit Work

13. In the 2012/13 Internal Audit work programme, 5 days were allocated to residual 2011/12 audit work and 9 days were used in completing this work.

2012/13 Productive Non-Specific Audit Work

14. There was a total of 140 days allocated to Productive Non-Specific Audit Work in the 2012/13 Audit Programme. This was reviewed in September 2011 and no revision considered necessary.

15. At 31 March 2012, Productive Non-Specific Audit Work accounted for 122 days against the allocated 140 days (-18).

2012/13 Planned Audit Work – Revised Internal Audit Programme

16. There were a total of 27 audits on the initial Internal Audit Plan 2012/13 which were reviewed and revised:

- July 2012 – increased to 37 audits with the inclusion of 10 additional audits from the Strategic Audit Programme
- September 2012 – increased to 39 audits including re-scoped and re-introduced Key Financial Audits
- December 2012 – final revision to 34 audits to ensure adequate coverage of all Key Financial Audits and with 6 audits carried forward to the 2013/14 Audit Programme.

17. Of the initial 27 audits, 10 were corporate-wide audits and 17 operational audits. There were 10 Key Financial Audits.

18. Of the final revised 34 audits, 8 were corporate-wide audits and 26 operational audits. Following confirmation of the External Auditors, the number of Key Financial Audits was increased to 13.

19. The final revised 333 days were allocated to audits as:

107 days (32%) of available Audit time was allocated to corporate audit work and 226 days (68%) to operational audit work

93 days (28%) of available Audit time was allocated to Key Financial Audits of which 70 days were for 6 audits which included specific

control testing on which the External Auditor can base reliance for their 2012/13 audit and 23 days were for the remaining 7 key financial audits where the scope of each audit was reduced to testing on a limited number of routine risk areas.

20. At 31 March 2013, planned audit work accounted for 302 days against the allocated 333 days (-31).
21. The Internal Audit target was for 90% of planned audits to be completed to draft stage by 31 March 2013. Of the revised 34 planned audits, 31 (91%) were completed to draft report stage by 31 March 2013.
22. There were 9 audits awaiting final completion at 31 March 2013, final reports have now been issued for 8 of these. The remaining audit is awaiting Chief Auditee agreement on the draft Report & management actions and the final report is expected to be issued by 31 May 2013.
23. The completion of our revised 2012/13 programme has been delayed because unplanned addition non-audit time needed for staff management, sickness and compassionate leave during the year.

Annual Audit Opinion

24. Our audit opinions are formed on the basis of the number and level of risk associated with the recommendations made.
25. The table reproduced at appendix 1 shows the audit work undertaken; the planned audit days from the 2012/13 Revised Internal Audit programme; the actual audit days taken including any residual audit work in 2013/14 to date; the number of recommendations made as a result of our audit work and the audit opinions formed for the 33 Audits completed to final stage.
26. For the 33 completed audits in the 2012/13 audit programme 60 recommendations have been made to improve the Council's control environment. This is in comparison with the 40 recommendations made in the 23 audits completed in the 2011/12 audit programme and the 39 recommendations made in the 25 audits completed in the 2010/11 audit programme.
27. 38 out of the 60 recommendations (63%) arising from our 2012/13 audit work were assessed as being at level 2 (some impact). There have been no level 1 (little or no impact) recommendations. This means that key controls mostly exist but there may be some inconsistency in application.
28. 22 out of the 60 recommendations (37%) arising from our 2012/13 audit work were assessed as being at level 3 (significant impact). There have been no level 4 (catastrophic impact) recommendations.
29. There is no opinion given for the Corporate Governance Audit 2012/13 as all audit work was specifically working on the Council's Annual Governance Statement.

30. For the 32 audits on which an opinion has been given on the level of assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled:
- the opinions for 2 audits were 'limited assurance';
 - the opinions for 13 audits were 'adequate assurance' and
 - the opinions for 17 audits were 'substantial assurance'.
31. For the 12 completed Key Financial Audits on which an opinion has been given on the level of assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled:
- the opinion for 1 audit was 'adequate assurance' and
 - the opinions for 11 audits were 'substantial assurance'; however these 11 audits include all 7 of the key financial audits where the scope of each audit was reduced to testing on a limited number of routine risk areas..
32. The remaining audit for 2012/13 is a Key Financial Audit which was assessed at our planning stage as high risk. Our audit work has identified weaknesses in several significant control areas and the recommendations made in the draft report indicate at best a 'limited assurance' opinion.
33. In determining the overall audit opinion for the year, the factors in paragraphs 30 to 32 have been taken into consideration and weighted accordingly.
34. Therefore, **our audit opinion** on the control environment for 2012/13 is that risks material to the achievement of the objectives for the audited areas identified by Internal Audit are, on balance, **adequately managed and controlled**.

Implementation of Internal Audit Recommendations

35. To stimulate improvement and reduce the likelihood of error or loss, management have a responsibility for ensuring the recommendations contained within Internal Audit reports are implemented. To encourage the timely implantation of agreed recommendations all management action and timetable for implementation is agreed prior to the issue of the final report.
36. All recommendations, agreed management action and timetable for implementation are input into Covalent for Internal Audit management purposes.
37. Internal Audit manages the follow-up of implementation of recommendations through a combination of updates from responsible officers following automatic trigger notifications sent out by Covalent; regular reporting to meetings of this Committee and a rolling follow up programme at six months after the latest implantation date of the agreed management action or as part of the next audit of an area.

38. All Corporate audit reports are copied to the Corporate Management Team (CMT), all Operational audit reports are addressed to the member of CMT responsible for the audited area and copied to the Chief Executive, Section 151 Officer and the Monitoring Officer.
39. Members of the Performance & Audit Committee receive copies of all audit reports and Terms of Reference. All new level 3 and 4 recommendations were reported in detail at each meeting of the Committee.
40. Of the 60 recommendations made in Audits from the 2012/13 audit programme to date:
- 26 have been implemented
 - 34 remain in progress and along with the draft recommendations currently under discussion, will continue to be monitored through Covalent with progress reported to this committee during 2013/14.

External Auditors

41. Quarterly liaison meetings and informal ad hoc meetings were held between the Audit Managers of Internal Audit and the External Auditor to discuss current work being undertaken and future work plans.

Compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006

42.

The Code of Practice sets out organisational and operational standards for internal audit in Local Government. A general position statement on compliance with each of these is set out below:

1	<i>Scope of internal audit – the terms of reference, scope of work and responsibilities are set out in an approved Service Plan.</i>	The Internal Audit Charter and Terms of Reference 2012/13 were agreed with CMT in August 2012 and by the Performance & Audit Committee at its November 2012 meeting.
2	<i>Independence – organisational status enables Internal Audit to function effectively.</i>	The Audit Manager has the structural status that complies with The Code of Practice and effective discussion of audit issues is facilitated. The independence of individual auditors is characterised by not having any operational responsibility.
3	<i>Ethics for Internal Auditors – awareness of ethical responsibilities, integrity; objectivity; confidentiality and competence of the audit team</i>	As part of their membership of the Chartered Institute of Internal Auditors, the audit team re-confirm annually their compliance with the Institutes International Standards for the Professional Practice of Internal

		Auditing and the Code of Professional Conduct of which ethical responsibilities; integrity; objectivity; confidentiality and competence and core elements.
4	<i>Audit committees or equivalent – there are specific mechanisms for reporting to members at overview level.</i>	The Audit Manager reports to the Council's Performance & Audit Committee.
5	<i>Relationship with management, other auditors and other review bodies – the Council seeks to co-ordinate Internal Audit work with that of other review agencies.</i>	External audit relies on the work of Internal Audit for assurance purposes. Regular Liaison meetings are held with external audit.
6	<i>Staff training and development – Internal Audit is fully staffed in terms of numbers.</i>	Staff have or are working towards appropriate qualifications and experience, having regard to its objectives and to The Code.
7	<i>Audit strategy – a strategy is maintained for delivering the Internal Audit service as per the terms of reference</i>	An Internal Audit Strategy 2012/13 was drawn up and agreed with CMT in August 2012 and by the Performance & Audit Committee at its November 2012 meeting.
8	<i>Management of audit assignments – assignments are prepared, discussed and agreed with line managers.</i>	A risk-based, systematic approach is undertaken. Assignments are recorded and there are standards for documentation and working papers.
9	<i>Due professional care – is appropriate to the objectives, complexity, nature and materiality of the audit being carried out.</i>	Care is ultimately achieved by adherence to The Code and quality assurance.
10	<i>Reporting – audit assignments and their results are reported to those charged with governance and any third parties.</i>	The performance of the Internal Audit function against programme is reported to the Performance & Audit Committee.
11	<i>Quality assurance – the work of Internal Audit is controlled at each level of operation.</i>	The management of Internal Audit is effectively controlled through a Charter & Terms of Reference; strategy; service plan; audit manual; staff appraisals; performance measures and indicators. Internal Audit is subject to regular quality review by External Audit.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
No internal audit assurance is provided to those charged with governance.	1 Internal Audit work programme for 2012/13	3 Failure to provide internal audit assurance could lead to inability to meet corporate and operational objectives and Adverse audit Commission report and damage to the Authority's reputation	The Audit Commission review the outcome of Internal Audit work. The performance of the Internal Audit Section is monitored by senior management and Members.
Those charged with governance do not respond to Internal Audit recommendations.	2 Reports can contain re-iterations of recommendations made during previous audit that have not been implemented.	3 There would be varying levels of impact from any non-implementation of the recommendations given the high significance of the majority of control risks identified.	There is an escalation procedure. Internal audit reports are followed up to ensure compliance. The outcome of Internal Audit work is reviewed by the Audit Commission and by the Performance & Audit Committee.

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.