

Committee: PERFORMANCE & AUDIT COMMITTEE

Agenda Item

Date: 22 July 2014

8

Title: Internal Audit Annual Report and Opinion
2013/14

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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 2013/14 and provide an overall opinion on the Council's control environment for 2013/14. The report also shows the state of compliance with the Public Sector Internal Audit Standards (PSIAS) which came into effect 01 April 2013.

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. None.

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 18 June 2014
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 2011, regulation 4(3), that all relevant bodies prepare 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 2013/14 was delivered by the Council's in-house Internal Audit Team, which comprised of the following full-time officers:
 - 1 x Internal Audit Manager (full-time)
 - 1 x Internal Auditor (full-time)
 - 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 2013/14 the Internal Audit Manager reported to Members of the Performance & Audit Committee on details of work undertaken by Internal Audit and on implemented and outstanding Internal Audit recommendations.
10. The Internal Audit Work Programme 2013/14 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 June 2013 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 October 2013 to allocate initial time to preliminary key financial work for 2013/14;
 - The third review was undertaken in January 2014 to decide key financial work and other 2013/14 audit work to be undertaken by the audit resource available in quarter 4.

11. The initial Internal Work Programme for 2013/14 was drawn up in January 2013 and implemented from 01 April 2013 on the basis of a resource of 2 full-time auditors and 1 part-time (0.7 FTE) auditor. The allocation of audit days are calculated as follows:

	Original Apr 13 days	1st revision Jun 13 days	2nd revision Oct 13 days	3rd revision Jan 14 days	actual days taken	diff between 3rd revision & actual
total days available	694	694	694	694	694	0
less leave provisions and non-audit time	(253)	(253)	(253)	(253)	(235)	-18
total audit days available	441	441	441	441	459	
<i>programmed 2013/14 audit work</i>	310	310	295	295	309	14
<i>productive Non-specific audit work</i>	156	156	156	156	150	-6
total audit days allocated	466			451	459	

2013/14 Leave Provisions & Non-Audit Time

12. At 31 March 2014, Leave Provisions (bank holidays; annual, statutory, study & sick leave) accounted for 105 days against the allocated 116 days (-11).

13. At 31 March 2014, Non-Audit Time (training; CPD; planning & management; administration; appraisals; team meetings etc.) accounted for 130 days against the allocated 137 days (-7).

2013/14 Productive Non-Specific Audit Work

14. At 31 March 2014, Productive Non-Specific Audit Work accounted for 150 days against the allocated 156 days (-6).

	allocated days	actual days taken	diff
residual 2012/13 audit work	5	17	12
Follow-up work	10	9	-1
Irregularity Provision	25	25	0
Consultancy & General Advice	34	14	-20
Committee & Member Related work	36	25	-11

Contribution to Corporate Management	24	19	-5
NFI Key Contact & other fraud related work	15	32	17
Other- e.g External Auditor liaison	7	9	2
	156	150	-6

2013/14 Planned Audit Work – Revised Internal Audit Programme

15. There were a total of 31 audits on the initial Internal Audit Programme 2013/14 which were reviewed and revised:

- June 2013 – overall total of audits remained at 31
- October 2013 – overall total of audits remained at 31
- January 2014 – final revision to 27 audits to be completed in 2013/14 with 4 audits carried forward to the 2014/15 Audit Programme (Equality & Diversity; Training; Street Services; Car Parking Partnership).

16. The decision to reduce the total of audits to 27 was taken to ensure adequate coverage of all Key Financial Audits with the audit resources available.

17. The audits of Corporate ICT and Corporate Asset Management were carried out by auditors from Epping Forest District Council's (EFDC) Internal Audit Team as part of an informal audit swap arrangement. The part-time UDC auditor is also employed in Internal Audit at EFDC and the audit swap arrangement was proposed for 2013/14 to give flexibility to both roles. As a result additional days required at either council were repaid with compensating additional days at the other and by using a recently qualified IT Auditor from EFDC for the UDC ICT audit and a EFDC Auditor for the UDC Asset Management audit, this ensured a zero balance of days owed at 31 March 2014.

18. The success of the informal audit swap will be built upon during 2014/15 with further exchanges of staff as skills, expertise and resources dictate.

19. Of the revised 27 audits to be completed in 2013/14:

- 16 were Key Financial Audits (Sundry Debtors being incorporated as part of the Recovery Team Audit);
- 5 were Corporate Audits and
- 7 were Operational audits.

20. The final revised 295 days were allocated to these audits as:

- Key Financial Audits - 150 days (51%) of available Audit time was of which

- 60 days were for the 4 audits initially identified for specific control testing on which the External Auditor can base reliance for their 2013/14 audit and
 - 90 days were for the remaining 13 key financial audits on which audit work included reviewing and updating systems documentation for use by the External Auditor.
- Corporate Audits – 60 days (20%)
 - Operational Audits - 85 days (29%)
21. At 31 March 2014, planned audit work accounted for 309 days against the allocated 295 days (+14).
22. The Internal Audit target was for 90% of planned audits to be completed to draft stage by 31 March 2014. Of the revised 27 planned audits, 26 (96%) were completed to draft report stage by 31 March 2014, (3 of which were awaiting final completion).
23. By 14 May 2014, final Reports had been issued for all 2013/14 audits.

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 2013/14 Revised Internal Audit programme; the actual audit days taken including any residual audit work in 2014/15 to date; the number of recommendations made as a result of our audit work and the audit opinions formed for the 25 of the 27 Audits completed to final stage.
26. There is no opinion given for the Corporate Governance Audit 2013/14 as all audit work was specifically on production of the Council's Annual Governance Statement.
27. There is no opinion given for the Housing Benefits Audit 2013/14 as no control testing was undertaken during this audit.
28. For the 25 completed audits in the 2013/14 audit programme on which an opinion has been given, 56 recommendations have been made to improve the Council's control environment. This is in comparison with the 60 recommendations made in the 33 audits completed in the 2012/13 audit programme and the 40 recommendations made in the 23 audits completed in the 2011/12 audit programme.
29. The 56 recommendations arising from our 2013/14 audit work were assessed as follows:

- 1 recommendation was assessed as level 4
(fundamental and requiring immediate attention and priority action)
 - 9 recommendations were assessed as level 3
(significant that should be addressed within six months)
 - 36 recommendations were assessed as level 2
(important that should be addressed within twelve months);
 - 10 recommendations were assessed as level 1
(merit attention and would improve overall control).
30. For the 25 audits on which an opinion on the level of assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled has been given:
- the opinions for 2 audits were 'limited assurance';
 - the opinions for 8 audits were 'adequate assurance' and
 - the opinions for 15 audits were 'substantial assurance'.
31. For the 15 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 3 audit was 'adequate assurance' and
 - the opinions for 12 audits were 'substantial assurance'; however these 12 audits include 6 key financial audits where the scope of the audit was for testing to be carried out on a limited number of routine risk areas.
32. In determining the overall audit opinion for the year, the factors in paragraphs 29 to 31 have been taken into consideration and weighted accordingly.
- 33. Therefore, our audit opinion on the control environment for 2013/14 is that risks material to the achievement of the objectives for the audited areas identified by Internal Audit are, on balance, substantially managed and controlled.**

Implementation of Internal Audit Recommendations

34. 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.
35. All recommendations, agreed management action and timetable for implementation are input into Covalent for Internal Audit management purposes.

36. 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.
37. 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.
38. 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.
39. Of the 56 recommendations made in Audits from the 2013/14 audit programme to date:
- 31 have been implemented
 - 24 have a due date after 31 March 2014 and will continue to be monitored through Covalent with progress reported to this Committee during 2014/15
 - 1 has been cancelled as changes within the service made it no longer necessary.

External Auditors

40. 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.

Conformance with the Public Sector Internal Audit Standards (PSIAS) and Other Quality Assurance Results

41. The PSIAS require that an internal or external review of the Internal Audit Service is conducted annually. During 2013/14 a self-assessment was undertaken to review conformance with the PSIAS
42. This review confirmed conformance with the four elements of the PSIAS Code of Ethics:
- 1 Integrity
 - 2 Objectivity
 - 3 Confidentiality
 - 4 Competency

Conformance with the following Standards:

- 1000 Purpose, Authority and Responsibility
- 1100 Independence and Objectivity

- 1200 Proficiency and Due Professional Care
- 2000 Managing the Internal Audit Activity
- 2100 Nature of Work
- 2200 Engagement Planning
- 2300 Performing the Engagement
- 2400 Communicating Results
- 2500 Monitoring Progress
- 2600 Communicating the Acceptance of Risks

And partial or non-conformance with the following Standards:

- 1300 Quality Assurance and Improvement Programme

43. This review confirmed that there were no significant areas of non-conformance and a Quality Assurance & Improvement Programme (QAIP) is being developed to address the minor issues arising. Progress against the QAIP will be reported to the Performance & Audit Committee during 2014/15 and in the 2014/15 Internal Audit Annual Report and Opinion.

44. It can also be confirmed that the internal audit activity is organisationally independent. Internal audit reports to the Assistant Chief Executive – Legal but has a direct and unrestricted access to all senior management and the Performance & Audit Committee.

45. Quality control procedures have been established within the Internal Audit Services as follows:

- Individual Audit Reviews – Working papers and reports are all subject to independent review to ensure that the audit tests undertaken are appropriate, evidenced and the correct conclusions drawn. All reports are reviewed to ensure that they are consistent with working papers and in layout. Whilst these reviews invariably identify issues for clarification, the overall conclusion of the quality assurance checks is that work is being completed and documented thoroughly.
- Customer Satisfaction – A Post Audit Questionnaire form is issued to the main auditees on completion of an audit. This form seeks the views of the recipient on how the audit was conducted, the report, recommendations made and overall opinion of the audit. Based on the Post Audit Questionnaire forms returned, the average score was 82% for customer satisfaction during 2013/14.
- All staff have been provided with a copy of the Public Sector Internal Audit Standards and the Internal Audit manual has been updated to reflect the requirements of the standards.

46. The above quality control procedures have ensured conformance with the PSIAS. Audits have been conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Review of Performance of the Internal Audit Service Against the Current Internal Audit charter

47. The Audit Charter was reported to and approved by the Performance & Audit Committee on 21 November 2013.

48. Based on the information provided in this report on the completion of the 2013/14 Internal Audit Programme, it is considered that the requirements of the Charter were met during the year.

Risk Analysis

49.

Risk	Likelihood	Impact	Mitigating actions
No internal audit assurance is provided to those charged with governance.	1 Internal Audit work programme for 2013/14	3 Failure to provide internal audit assurance could lead to inability to meet corporate and operational objectives and Adverse External Auditor report and damage to the Authority's reputation	The External Auditor 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 External Auditor 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.