

**AUDIT & GOVERNANCE COMMITTEE 25 June 2014**  
**INTERNAL AUDIT ANNUAL REPORT 2013/14**

**LEAD OFFICER:** Angela George,  
Interim S.151 Officer

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## **1.0 EXECUTIVE SUMMARY**

1.1 This report provides a summary of the outcomes of the work of Internal Audit for 2013/14 and includes the Head of Internal Audit's opinion on the effectiveness of the Council's arrangements for risk management, governance and internal control in accordance with the requirements of the Public Sector Internal Audit Standards.

1.2 Key points from internal audit's annual report are:

- The annual opinion of the head of internal audit. Based on the work undertaken by internal audit during the year, reasonable assurance has been provided over the adequacy and effectiveness of the council's overall arrangements for governance, risk management and internal control.
- Overall, 84% of internal audit reviews completed in the year have resulted in at least reasonable levels of assurance.
- The work of internal audit is considered to have provided an appropriate level of coverage to provide the opinion, however the report identifies that the original audit plan was not delivered in full due to factors that have been explained to Audit and Governance Committee during the year.
- Several service development projects have been undertaken during the year to implement the improvements identified through internal and external consultation, the requirements of the Public Sector Internal Audit Standards and recommendations from the 2013/14 Grant Thornton review of Internal Audit.

1.3 Summaries of the outcomes of all completed audits during the year are included at Appendix 1.

## **2.0 RECOMMENDATION**

2.1 Members are asked to note:

- The progress achieved in 2013/14 in delivering the audit plan and the outcomes of completed audit reviews set out in Appendix 1.
- The Head of Internal Audit's opinion of reasonable assurance on the Council's overall systems of governance, risk management and internal control for the year ended 31<sup>st</sup> March 2014.
- The Head of Internal Audit's declaration of conformance with the mandatory Public Sector Internal Audit Standards.

- The Head of Internal Audit's declaration of Internal Audit independence as required by the PSIAS.
- The outcomes of the Quality Assurance and Improvement Programme (Appendix 2).

### **3.0 BACKGROUND**

- 3.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act. The Accounts and Audit Regulations 2011 require that the Council maintains an adequate and effective system of internal audit of its accounting records and of its system of internal control conducted in accordance with the proper internal audit practices. 'Proper audit practices' are now defined as those stated within the Public Sector Internal Audit Standards (PSIAS) which became mandatory for all UK public sector internal auditors from 1<sup>st</sup> April 2013.
- 3.2 Internal Audit is responsible for providing independent assurance to the Council's senior management and to the Audit and Governance Committee on the systems of governance, risk management and internal control.
- 3.3 It is management's responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and that outcomes are achieved. Management is responsible for the system of internal control and should set in place policies and procedures to ensure that controls are operating effectively.

#### **Internal Audit Opinion**

- 3.4 The purpose of this report is to give my opinion as the Head of Internal Audit for Copeland Borough Council on the adequacy and effectiveness of the Council's systems of risk management, governance and internal control from the work undertaken by internal audit for the year ended 31<sup>st</sup> March 2014.
- 3.5 This report is a key contributor to the Council's Annual Governance Statement.
- 3.6 In giving this opinion, it should be noted that assurance can never be absolute and it is not possible to give complete assurance that there are no major control weaknesses. My opinion is based on the work undertaken by internal audit during the year, including the outcomes of follow up work.
- 3.7 I am satisfied that sufficient internal audit work has been undertaken to allow me to give a reasonable conclusion on the adequacy and effectiveness of risk management, governance and internal control. I can also report that there has been no threat to the independence of internal audit that would impact on the provision of my annual opinion statement.
- 3.8 In my opinion, Copeland Borough Council's overall framework of governance, risk and internal control is reasonable and audit testing has confirmed that controls are generally working effectively in practice.

### **Internal audit performance**

3.9 Audit and Governance Committee has been advised during 2013/14 that complete coverage of the 2013/14 audit plan was not expected to be achieved. This resulted from the following factors: Some planned audit reviews could not be progressed as originally scheduled, at the request of Council management. These included reviews of IT Strategy; FOI compliance and procurement arrangements. These reviews have been included in the audit universe for 2014/15 planning and risk-assessed for inclusion in the annual plan. Four further audits in the original 2013/14 plan were not completed. These were as follows:

- Capital accounting – management request that significant external audit work completed on this area and that Internal Audit had done specific work on new asset register system;
- HB overpayments – reliance placed on review undertaken by Internal Audit Shared Service for Carlisle City Council which is part of RBSS. No major issues were identified;
- KPI's – a review of performance management arrangements was completed and it was agreed that KPI's would be reviewed separately. This will be incorporated into 2014/15 review of performance management;
- Governance – previously significant work had been carried out on annual reviews of governance arrangements but few issues had been identified. It was agreed that this would be included in cyclical reviews in future and the S.151 Officer advised that no internal audit was required for 13/14.

In addition to the above, provisions for counter fraud and value for money work were not fully used. Copeland has only been charged for actual audit days delivered – see 3.10 below.

3.10 Internal audit's performance during 2013/14 was measured in terms of inputs (the number of audit days delivered), outputs (the % of the audit plan completed) and a qualitative measure based on customer feedback. The results are shown below.

| <b>Audit days</b>                 |     |
|-----------------------------------|-----|
| Original audit plan days          | 550 |
| Number of audit days delivered    | 450 |
| % of planned audit days delivered | 82% |

  

| <b>Audit plan (assignments)</b> |    |
|---------------------------------|----|
| Original assignments            | 32 |

|                        |     |
|------------------------|-----|
| Assignments completed  | 25  |
| % audit plan completed | 78% |

| Customer feedback                        |                              |
|--|------------------------------|
| Aspect of audit                          | %age rated good or very good |
| Audit planning - scope                   | 83%                          |
| Audit planning - initial discussions     | 83%                          |
| Clarity of report                        | 92%                          |
| Fair presentation of findings            | 100%                         |
| Usefulness of recommendations            | 75%                          |
| Timeliness of audit report               | 75%                          |
| Consultation on findings/recommendations | 92%                          |
| General helpfulness of audit staff       | 92%                          |
| Overall usefulness of audit              | 83%                          |

Although only based on 12 completed surveys, the general feedback has been positive.

- 3.11 A wider range of performance measures for Internal Audit in 2014/15 are included as an appendix to the report on internal audit effectiveness.

#### **Internal audit coverage and outputs**

- 3.12 A total of 25 internal audit reviews were carried out, 11 of these related to fundamental systems audit work and 14 related to other audit reviews.
- 3.13 Overall levels of assurance are considered to be reasonable with 84% of reviews concluding at least a reasonable level of assurance. This breaks down as follows:
- Fundamental systems audits - 100% (11/11) reasonable assurance or higher
  - Other audits - 71% (10/14) reasonable assurance or higher
- 3.14 The summary shows that for 2013/14 audit testing, all fundamental systems received at least reasonable assurance. 71% of other reviews resulted in reasonable or higher levels of assurance.
- 3.15 Appendix 1 provides the detail of audit work undertaken over the year to 31<sup>st</sup> March 2014. Details of these audits and all recommendations have been included in regular internal audit progress reports during the year.

#### **Internal Audit Service Development Work**

- 3.16 In addition to the approved plan of internal audit reviews, a programme of service development projects was undertaken during 2013/14 to deliver the actions identified through the Grant Thornton review of Internal Audit, the requirements

of the Public Sector Internal Audit Standards and other service improvements identified through internal and external consultation with staff and clients.

- Review of audit planning methodology – a fundamental review of the approach to internal audit planning was undertaken across the Shared Internal Audit Service to ensure the approach is fully risk based. Audit plans are now prepared using a risk based approach that takes into account the views of senior management together with risks identified through risk management processes, annual governance statement issues, emerging risks and national and local issues. All issues identified are then risk assessed using a consistent model across each of the shared service participants.
- A full review of the approach to undertaking internal audit reviews was undertaken resulting in the implementation of a risk based approach to internal auditing, consistent with the requirements of the PSIAS. A new set of working papers has been developed together with a documented methodology for staff to follow for all audits across the shared service. The approach now engages senior management at both the scoping and closeout stages of each review.
- The internal audit report template has been fundamentally reviewed following feedback from clients that a shorter more concise report would better meet their requirements. A new template has been developed which incorporates the recommendations from the Grant Thornton review of internal audit effectiveness as well as the PSIAS.
- Development of a Quality Assurance and Improvement Programme – Whilst the core elements of a QAIP were in place during 2013/14 (performance measures, quality review of audit files, internal self-assessment, an external assessment and a programme of service improvement actions), it was recognised that this needed to be formalised into a single QAIP in order to demonstrate full conformance with the PSIAS. The programme was developed during 2013/14 and is reported as part of the review of internal audit effectiveness.
- Raising the profile of Internal Audit and improving communications – as reported previously, work has already begun in this area, with presentations to the Shared Service Operations Board and to Audit Committees across the Shared Service. A project plan will be developed in 2014/15 to develop this area further.

### **Statement of Conformance with Public Sector Internal Audit Standards**

- 3.17 A separate paper has been reported to Audit & Governance Committee setting out the outcomes of the annual Review of Internal Audit Effectiveness. The review took the format of an internal assessment by the Section 151 Officer, against the checklist contained within the Local Government Application Note which accompanies the Public Sector Internal Audit Standards.
- 3.18 The outcomes of the review confirm that internal audit work has been undertaken in accordance with the Public Sector Internal Audit Standards with a small number

of exceptions where work is underway to address these. In particular, further work was required to address the following issues:

- There is a requirement for a comprehensive set of performance measures to be in place for the service. A small number of measures of internal audit performance were in place during 2013/14 but these will be further developed for 2014/15 in conjunction with the Shared Services Operations Board.
- The core elements of a Quality Assurance and Improvement Programme were in place during the year but this had not been documented and shared with Audit and Governance Committee during 2013/14.
- There is currently no documented policy for the retention of internal audit documentation. Whilst no issues have arisen in relation to information governance within the service, it is acknowledged that a policy needs to be developed during 2014/15.

#### **4.0 CONCLUSION**

- 4.1 Internal audit work has been carried out in accordance with the mandatory standards for internal audit with a small number of areas for further development.
- 4.2 The work of internal audit is considered to be sufficient to provide an overall opinion on the systems of governance, risk management and internal control.
- 4.3 There have been no threats to internal audit independence that would impact on the provision of an annual opinion statement.
- 4.4 The annual opinion has concluded Reasonable assurance over the systems of governance, risk management and internal control.

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#### **APPENDICES**

Appendix 1: Summary of internal audit work undertaken in support of the overall opinion.

Appendix 2: Outcomes of the Quality Assurance and Improvement Programme.

## SUMMARY OF COMPLETED AUDITS 2013/14

|           | AUDIT AREA                       | OVERALL<br>OPINION/ASSURANCE<br>LEVEL | RECOMMENDATIONS |           |          |
|-----------|----------------------------------|---------------------------------------|-----------------|-----------|----------|
|           |                                  |                                       | P1              | P2        | P3       |
| 1         | ASSET REGISTER                   | SUBSTANTIAL                           | -               | -         | -        |
| 2         | CHIPSIDE PARKING SYSTEM          | REASONABLE                            | -               | 3         | 1        |
| 3         | HEALTH & SAFETY                  | REASONABLE                            | -               | 6         | 2        |
| <b>4</b>  | <b>FINAL ACCOUNTS 12/13</b>      | <b>SUBSTANTIAL</b>                    | -               | -         | -        |
| 5         | PERFORMANCE MANAGEMENT           | PARTIAL                               | 1               | 4         | 1        |
| 6         | MEMBERS ALLOWANCES               | REASONABLE                            | -               | 2         | -        |
| 7         | COMPLAINTS SYSTEM                | REASONABLE                            | -               | 5         | 1        |
| <b>8</b>  | <b>LOANS &amp; INVESTMENTS</b>   | <b>SUBSTANTIAL</b>                    | -               | -         | -        |
| 9         | DIPS SYSTEM                      | REASONABLE                            | -               | 2         | -        |
| 10        | TRAVEL & SUBSISTENCE             | REASONABLE                            | -               | 3         | 1        |
| 11        | DISABLED FACILITIES GRANTS       | SUBSTANTIAL                           | -               | 1         | 1        |
| <b>12</b> | <b>MAIN ACCOUNTING SYSTEM</b>    | <b>SUBSTANTIAL</b>                    | -               | -         | -        |
| 13        | PETTY CASH                       | PARTIAL                               | -               | 6         | 1        |
| <b>14</b> | <b>CASH RECEIPTING</b>           | <b>SUBSTANTIAL</b>                    | -               | <b>2</b>  | -        |
| <b>15</b> | <b>SUNDRY DEBTORS</b>            | <b>SUBSTANTIAL</b>                    | -               | -         | -        |
| 16        | BEREAVEMENT SERVICES (FOLLOW UP) | SUBSTANTIAL                           | -               | -         | -        |
| 17        | RISK MANAGEMENT                  | SUBSTANTIAL                           | -               | -         | -        |
| <b>18</b> | <b>CREDITORS</b>                 | <b>REASONABLE</b>                     | -               | <b>3</b>  | -        |
| <b>19</b> | <b>BUSINESS RATES</b>            | <b>REASONABLE</b>                     | -               | <b>4</b>  | -        |
| <b>20</b> | <b>BENEFITS</b>                  | <b>REASONABLE</b>                     | -               | <b>2</b>  | -        |
| <b>21</b> | <b>COUNCIL TAX</b>               | <b>SUBSTANTIAL</b>                    | -               | -         | -        |
| <b>22</b> | <b>PAYROLL</b>                   | <b>SUBSTANTIAL</b>                    | -               | -         | -        |
| <b>23</b> | <b>BUDGETARY CONTROL</b>         | <b>REASONABLE</b>                     | -               | <b>1</b>  | -        |
| 24        | PARTNERSHIPS                     | PARTIAL                               | -               | 6         | 1        |
| 25        | HOUSING OPTIONS                  | PARTIAL                               | 2               | 2         | -        |
|           | <b>TOTAL</b>                     |                                       | <b>3</b>        | <b>52</b> | <b>9</b> |

| SUMMARY OF ASSURANCE LEVELS |            |         |       |
|-----------------------------|------------|---------|-------|
| SUBSTANTIAL                 | REASONABLE | PARTIAL | TOTAL |
| 11                          | 10         | 4       | 25    |
| 44%                         | 40%        | 16%     | 100%  |

Audits highlighted in bold are fundamental systems reviews.

**Results of the Quality Assurance and Improvement Programme**

Whilst a formal QAIP was under development during 2013/14, the core elements of such a programme were in place and are reported here in accordance with the requirements of the PSIAS.

The programme comprised the following elements:

Internal assessments

| Action  | Outcome   | Conformance with PSIAS |
|---|---|------------------------|
| All internal audit reviews subject to Audit Manager QA check and feedback to audit staff as appropriate | No issues of non-conformance identified   | ✓                      |
| Internal audit performance measures   | Small number of measures reported to Audit & Governance Committee quarterly. No significant issues identified.  | ✓                      |
| Annual self-assessment against PSIAS & LGAN   | Generally in conformance with Standards. Small number of minor non-conformances identified for action in 2014/15 and reported to Audit and Governance Committee in 'Review of IA Effectiveness' report. | Partial                |
| Internal Service Development Plan   | Review of audit planning methodology completed<br><br>Review of audit approach completed and training provided<br><br>Review of audit report format completed   | ✓                      |

External assessment

A review of Internal Audit Effectiveness was undertaken by Grant Thornton and an action plan agreed. Details of the review outcomes have previously been reported to the Audit & Governance Committee. Progress on the agreed actions is reported within the annual Review of Effectiveness of Internal Audit.