

Meeting:	GLT	Date:	11th June 2013
	Audit & Governance Committee		24th June 2013
Subject:	Internal Audit Annual Report 2012-13		
Report Of:	Group Manager Audit & Assurance		
Wards Affected:	N/A		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Terry Rodway, Group Manager Audit & Assurance		
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Appendices:	1. Appendix A – List of Audits that resulted in a ‘Limited’ or ‘Unsatisfactory’ Level of Assurance		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To provide members with a brief overview of Internal Audit work, compliance with Financial Regulations, Contract Standing Orders, and general probity issues for the financial year ending 31st March 2013, and, to provide an opinion on the overall adequacy and effectiveness of the organisation’s control environment.

2.0 Recommendations

- 2.1 Audit & Governance Committee is asked to **RECOMMEND** that

- (1) Members endorse the assurance from the Group Manager Audit & Assurance that a satisfactory level of assurance can be given that there is a generally sound system of internal control, designed to meet the Council’s objectives, and that controls are generally being applied consistently.

3.0 Background and Key Issues

- 3.1 Internal Audit work during the year was carried out to the standards outlined in the CIPFA ‘Code of Practice for Internal Audit in Local Government in the United Kingdom 2006’ (the Code).
- 3.2 The Code requires the Head of Internal Audit to ‘provide a written report to those charged with governance timed to support the Annual Governance Statement’. A separate report containing the Annual Governance Statement is included on the agenda for the Audit Committee on 24th June 2013.
- 3.3 The Code defines internal audit as “an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on

the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources”.

- 3.4 To achieve full effectiveness the scope of the internal audit function should provide an unrestricted range of coverage of the organisation’s operations and the internal auditor should have sufficient authority to access such records, assets and personnel as are necessary for the proper fulfilment of responsibilities. These access rights are specified in the Internal Audit Charter, which has been approved by Members and is referred to in the Council’s Constitution.

4.0 Opinion

- 4.1 The Council’s Group Manager Audit & Assurance is required to produce a formal annual report and opinion on the overall adequacy and effectiveness of the Council’s internal control environment.
- 4.2 My overall opinion is that a satisfactory level of assurance can be given that there is a generally sound system of internal control, designed to meet the Council’s objectives, and that controls are generally being applied consistently.
- 4.3 My opinion is based upon, and limited to, the work completed as part of the agreed 2011-12 Internal Audit plan, the results of which have been reported to the Audit Committee during the year. The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the Council, but is based upon the range of individual opinions arising from the audit assignments completed.
- 4.4 These individual opinions are summarised below:-

Opinion	No	%
Good	15	37
Satisfactory	12	29
Limited	12	29
Unsatisfactory	2	5
TOTAL	41	100

NB On a number of audits a ‘split’ opinion has been provided. This approach helps to identify to management the specific areas of control that are/are not operating as intended, rather than provide an overall conclusion on all the areas covered by the audit. Where a ‘split’ opinion has been provided on an audit, both opinions have been included in the above table. Details of the audits that received a partial ‘Limited’ or ‘Unsatisfactory’ level of assurance are provided in Appendix A.

- 4.5 The areas during the year that resulted in an ‘unsatisfactory level of assurance’ together with other control issues identified within Financial Services have been included in the actions identified by the Director of Resources in both the Annual Governance Statement and the Financial Services Improvement Plan. The Finance Change Manager will update committee members at the meeting on progress to date.

5.0 Summary of 2012-13 Work

5.1 Annual Plan

5.1.1 The Internal Audit Plan for 2012-13 was agreed by the Audit Committee at its meeting on 15th March 2012. As a result of a higher than planned level of sickness, and the effect this had on the completion of the originally agreed Annual Plan, a revised Plan was devised which was approved by the Audit Committee at its meeting on 26th November 2012.

5.1.2 Audits have been carried out on the following areas during the year:-

Financial Services, Revenues & Benefits (Civica), Cemetery & Crematorium, Grants to Voluntary Organisations, TIC, Markets, Licences, Parking.

The internal audit section also provided internal audit services, under a Service Level Agreement, to Gloucester City Homes and Aspire Leisure Trust.

5.2 Internal Control Assurance

5.2.1 Internal financial controls are continually reviewed across all service areas by carrying out a mixture of system-based audits and probity audits.

5.2.2 System based auditing involves the identification, documentation, evaluation and testing of controls. Recommendations are made to management where weaknesses are identified. Where appropriate, use is made of CIPFA's System Based Auditing Control matrices. These matrices act as an aid to identifying the control objectives, expected controls and compliance tests for each main system.

5.2.3 Probity audits involves testing, by means of sampling, transactions to ensure that the 'rules' of the organisation have been adhered to, that material fraud and significant levels of error are not in evidence, and that the organisation is acting within its statutory powers.

5.2.4 The audit work on the main financial systems (e.g. main accounting system, creditors, benefits, payroll, council tax, NNDR) involved the testing of key controls as detailed within the Joint Working Agreement between Internal Audit and External Audit. Close co-operation between audited bodies' internal and external auditors helps to ensure that audit resources are used efficiently and to maximum effect. The aim of the Joint Working Agreement is for External Audit to place a high degree of reliance on the work of the internal audit team. This will help inform their judgement on the council's financial control environment, and is also one of the factors taken into account when calculating the External Audit fee.

5.2.5 Follow-up audits are planned to be carried out to ensure that agreed recommendations have been implemented. Members have requested to be informed of any Rank 1 'High Priority' recommendations that have not been implemented by the agreed date and these have been reported via the quarterly 'Internal Audit Plan Monitoring Report'.

5.3 Other Issues

5.3.1 In relation to the 2012/13 Revised Annual Plan, 86% of the agreed Audit Plan has been completed. Best practice guidance suggests (at least) 90% for completion of the audit plan as a good benchmark.

5.3.2 The Section has a number of other performance indicators to monitor performance. These are: -

Indicator	Target	Performance 2010-11	Performance 2011-12	Performance 2012-13
Cost/Auditor (£000)	Median	£55.80 (£52.90) M (£55.80) UP	£53.98 (£53.53) M (£61.31) UP	£63.49 (£57.80) AVGE
Pay Cost/Auditor (£000)	Median	£40.00 (£39.10) M (£41.50) UP	£40.49 (£39.49) M (£44.13) UP	£41.82 (£ 42.87) AVGE
Overhead Cost/Auditor (£000)	Median	£15.80 (£12.00) M (£14.80) UP	£13.49 (£13.11) M (£13.78) UP	£18.10 (£14.92) AVGE
Productive Days per Auditor	Upper quartile	184 (190) UP (184) M	181 (203) UP (184) M	168 (200 Est.) UP (188 Est.) M
Cost per Chargeable Audit Day	Median	£327 (£3288?) M (£318) UP	£348 (£294) M (£322) UP	£395 (£353) AVGE
% of Audit Plan Completed	Min 90%	85%	90% (Revised Plan)	86% (Revised Plan)
Level of Customer Satisfaction – per audit.	Good	Good (3.72 out of 4)	See para. 5.3.3below	See para. 5.3.3below
Level of Customer Satisfaction – ‘whole service’	Good (5) NB – Adequate =4 Excellent = 6	>Good (4.93 out of 6)	>Good (5.06 out of 6)	No Survey carried out.

Key:-

LQ = Lower Quartile

M = Median

UP = Upper Quartile

NB The figures for 2012-13 include the ‘group’ average’ figures obtained from the CIPFA Benchmarking Club. The appropriate Quartile figures for 2012-13 are due to be published in July 2013.

5.3.3 The ‘Productive Days per Auditor’ figure for 2012/13 is low compared to previous years. The reason for this was the high number of days absence due to sickness -

139 days compared to a budget of 24 days – however this was mitigated to a certain extent by the use of agency staff.

- 5.3.4 At the completion of an audit, the auditee is asked to complete a questionnaire giving their views (on a scale of 1-4, 1 = Poor; 4 = Very Good) on the audit. As at the end of March 2013, only a minimal number of survey forms had been completed and returned. This was one of the main issues identified from the Review of the Effectiveness of Internal Audit (see para.5.3.8 below). As a result of this, a review of arrangements was carried out by the Gloucester Leadership Team (GLT) on 11th June 2013 - the outcome of which is that all managers are now mandated to complete the survey forms at the same time that they respond to the audit recommendations. A 100% return rate is therefore expected in the current financial year.
- 5.3.5 The CIPFA Code of Practice suggests that in addition to obtaining user feedback for each individual audit, user feedback for the whole service should also be obtained periodically. A Customer Satisfaction survey, which is planned to be undertaken on an annual basis, was first carried out in 2011/12. The survey was undertaken by the CIPFA Internal Audit Benchmarking Club, and was intended as a measure of quality to supplement metric benchmarking data, however, no survey was carried out by CIPFA during 2012/13.
- 5.3.6 The work of each member of staff is controlled by the Group Manager Audit & Assurance to ensure compliance with the Code. All reports and working papers are reviewed to ensure the correct approach has been adopted, no matters have been overlooked, and any conclusions can be supported.
- 5.3.7 In order to help ensure audit staff keep up to date with current issues and techniques, quarterly work reviews and annual staff development reviews are carried out to identify any training and personal development needs. However, only informal reviews were carried out during 2012/13 due to the formal appraisal system being subject to review. In addition, all staff are encouraged to register with an appropriate Continuing Professional Development (CPD) scheme.
- 5.3.8 In accordance with the Accounts & Audit (England) Regulations 2011, a review of the effectiveness of internal audit has been undertaken in accordance with guidance issued by the IPF Finance Advisory Network. The conclusion from the review, which is the subject of a separate report to the Audit Committee on 24th June 2013, was that internal audit is effective.
- 5.3.9 In addition to the annual review of effectiveness, the Council's External Auditors, KPMG, also carry out an assessment of internal audit work that has been carried out as part of the agreed joint working protocol. The formal feedback received from KPMG (letter dated 15th May 2013) states:-

"We reviewed internal audit's work on the key financial systems for those reviews that were concluded prior to February 2013. We have not yet re-performed any of internal audit's testing, nor have we concluded on the controls in operation at the council during the financial year ended 31 March 2013"

We did not identify any significant issues with internal audit's work and can report that we are again pleased with the way internal audit document and evaluate their findings”.

5.3.10 In relation to staffing matters, Gloucester City Council (GCC) and Stroud District Council (SDC) formed the Gloucestershire Audit & Assurance Partnership (**G A A P**) in order to deliver a professional, cost effective, efficient internal audit function to the partner organisations. The provision of the Internal Audit service is by a team of 6 auditors, 3 based at GCC, 3 based at SDC, and is managed by the Head of the Partnership

5.4 Public Sector Internal Audit Standards

5.4.1 The Public Sector Internal Audit Standards (PSIAS) became effective from the 1st April 2013, and will apply across the whole of the public sector. The PSIAS are based on the Institute of Internal Auditors (IIA) Standards, with a limited number of additional requirements and interpretations that allow the PSIAS to be adopted for the public sector.

5.4.2 The PSIAS replace the *Code of Practice for Internal Audit in Local government in the United Kingdom*, last revised in 2006. In local government, the PSIAS are mandatory for all principal local authorities subject to the Accounts and Audit (England) Regulations 2011.

5.4.3 These new standards are intended to promote further improvement in the professionalism, quality, consistency, and, effectiveness of internal audit across the public sector. The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced a Local Government Application Note to provide guidance to local authorities on how to apply the new standards. Following discussions with the DCLG with regards to what constitutes 'proper practices' in internal control as per the Accounts and Audit Regulations 2011, CIPFA have now advised that the 'proper practices' for UK local government are the PSIAS plus the Local Government Application Note. Therefore, the content of both these documents must be followed in order to satisfy proper internal audit practices.

5.4.4 A review is currently being undertaken to identify the main changes between the PSIAS and the previous CIPFA Internal Audit Standards for Local Government in the UK. At this stage of the review, it is apparent that the Internal Audit Charter will require to be updated to take account of the requirements of the PSIAS. A report on this, together with any other changes identified from implementing the new Standards, will be presented to the September 2013 meeting of the Audit & Governance Committee.

6.0 Alternative Options Considered

6.1 Not applicable

7.0 Reasons for Recommendations

7.1 In accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, the Council's Group Manager Audit & Assurance is required to produce a formal annual report and opinion on the overall adequacy and effectiveness of the Council's internal control environment.

8.0 Future Work and Conclusions

- 8.1 The Council's Internal Audit Plan for 2013/14 was approved by the Audit Committee on 18th March 2013. Achievement against the Plan will be regularly reported to the Audit & Governance Committee via the IA Plan Quarterly Monitoring Report.
- 8.2 The Public Sector Internal Audit Standards (PSIAS) became effective from the 1st April 2013, and will apply across the whole of the public sector. A review is currently being undertaken to identify the main changes between the PSIAS and the previous CIPFA Internal Audit Standards for Local Government in the UK. At this stage of the review, it is apparent that the Internal Audit Charter will require to be updated to take account of the requirements of the PSIAS. A report on this, together with any other changes identified from implementing the new Standards, will be presented to the September 2013 meeting of the Audit & Governance Committee.
- 8.3 In Conclusion, this report has been prepared in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, and provides the Group Manager Audit & Assurance' opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- 8.4 The opinion, which is based upon, and limited to the work performed by Internal Audit during the year, is that a satisfactory level of assurance can be given that there is a generally sound system of internal control, which is designed to meet the Council's objectives, and that controls are generally being applied consistently.

9.0 Financial Implications

- 9.1 As detailed in the report

(Financial Services have been consulted in the preparation this report.)

10.0 Legal Implications

- 10.1 None specific to this report.

(Legal Services have been consulted in the preparation this report.)

11.0 Risk & Opportunity Management Implications

- 11.1 The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records, and, governance arrangements. The organisation's response to internal audit activity should lead to the strengthening of the control environment and therefore contribute to the achievement of the organisations objectives.

12.0 People Impact Assessment (PIA):

- 12.1 A requirement of the Accounts & Audit Regulations 2011 is for the council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the council's equality policies.

12.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

13.0 Other Corporate Implications

Community Safety

13.1 There are no community safety implications arising out of this report.

Sustainability

13.2 There are no sustainability implications arising out of this report.

Staffing & Trade Union

13.3 There are no staffing and trade union implications arising out of this report.

Background Documents: Internal Audit Strategy
Internal Audit Charter
CIPFA Code of Practice for Internal Audit in Local
Government in the UK 2006
Public Sector Internal Audit Standards
Accounts & Audit (England) Regulations 2011

APPENDIX A

List of audits that resulted in a 'Limited' or 'Unsatisfactory' Level of Assurance

Audit	Limited	Unsatisfactory
Capital Accounting	Depreciation charged, impairment review, reconciliation of asset register to general ledger,	
Year-end Creditors & Debtors	Value of year-end Creditors and Debtors	
Information Governance	Freedom of Information <ul style="list-style-type: none"> • Accessibility of data on council's website relating to FOI policy and processes. Data Protection <ul style="list-style-type: none"> • Disclosure of personal data disclosed in reports available in the public domain • Recording of DPA cases on Focus system 	
Sundry Debtors	Recovery timetable for outstanding debts.	
Treasury Management	Regularity of reporting to Members on compliance with Treasury Management Strategy	
Cash & Bank	Bank reconciliations were not previously being completed by an independent officer and not subject to supervisory review; Differences and reconciling items on the 'Expenditure Account' and 'Cashiers Account' reconciliations.	
General Ledger	Clearance of suspense accounts and the review of journals.	
Revs & Bens Client Monitoring	Lack of evidence to support compliance with contract conditions including payment of service charges and accommodation fees. Recommendations also made in relation to improvements in the 10% sample check process.	
Creditors	Lack of monitoring payment times to suppliers. Recommendations were also made to ensure that the publication of invoice information in accordance with transparency requirements is updated regularly throughout the year.	

Budgetary Control	Lack of documentary evidence of budget reports being produced and issued to cost centre managers.	
Payroll and Payroll Client Monitoring		Lack of confirmation of the establishment by Group Managers, review of exception reports and reconciliation of the payroll to actual payments made. Client team issues included checking of contract conditions and assurance from the county council on adequacy of controls within their payroll system.