

Meeting:	Audit & Governance Committee	Date:	26 June 2014
Subject:	Audit, Risk & Assurance Manager's Annual Report 2013/14		
Report Of:	Audit, Risk & Assurance Manager		
Wards Affected:	N/A		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Terry Rodway, Audit, Risk & Assurance Manager		
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Appendices:	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 2014, 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 **RESOLVE** to:

- (1) Endorse the assurance from the Audit, Risk & Assurance Manager 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 Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note for the UK PSIAS.
- 3.2 The Standards require 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 & Governance Committee on 26th June 2014.
- 3.3 The Standards define internal audit as "an independent objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

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 Audit, Risk & Assurance Manager 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 2013/14 Internal Audit Plan, the results of which have been reported to the Audit & Governance 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	17	33
Satisfactory	18	36
Limited	13	25
Unsatisfactory	3	6
TOTAL	51	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 'Limited' or 'Unsatisfactory' level of assurance are provided in Appendix A.

4.5 The PSIAS state that, within this annual report, the Council's Audit, Risk & Assurance Manager should identify any issues that are relevant to the preparation of the Annual Governance Statement.

4.6 The main control issues identified as a result of internal audit work during the year, and which resulted in an unsatisfactory level of assurance, relate to contract management. Whilst issues such as these would normally be identified as a 'significant governance issue' and therefore relevant to the preparation of the annual governance statement, as Members have received assurance from the appropriate managers during the year that appropriate controls are now in place, it is my opinion that these issues do not require to be specifically reported in the governance statement.

5.0 Summary of 2013/14 Work

5.1 Annual Plan

5.1.1 The Internal Audit Plan for 2013/14 was agreed by the Audit & Governance Committee at its meeting on 18th March 2013.

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

Financial Services, Revenues & Benefits, Streetcare, Homelessness, BT&T, Disabled Facility Grants, Development Control, Asset Management, Parking, Catering, Risk Management.

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 audit 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 (JWA) between Internal Audit and External Audit. This JWA defined a number of key systems and key controls which the External Auditor would expect Internal Audit to cover on an annual basis to support the external audit work on the financial statements. The required scope for these encompassed both assessment of the design and implementation of controls, with walkthroughs of the system where applicable (testing of a single case to verify the documentation of systems and controls), and testing of the effective operation of the controls.

5.2.5 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 JWA 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.

5.2.6 The External Audit Interim Audit Report 2013/14 confirms that KPMG:

‘...did not identify any significant issues with internal audit’s work and are pleased to report that (KPMG) are again able to place full reliance on their work on the key financial systems. In our opinion Internal Audit’s files contained appropriate evidence to support the conclusions reached; reports are clear and easy to follow; and there is clear evidence of management review of work completed.’

5.2.7 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 2013/14 Annual Plan, 88% of the Audit Plan has been completed. Best practice guidance suggests (at least) 90% for completion of the Audit Plan as a good benchmark. The main reasons for non achievement of this target, which have been previously reported to this Committee, were (a) a number of audits taking longer to complete than originally planned, and (b) a member of the team carrying out duties as a recognised union representative, the time for which is allowed for in the appropriate Council policy, but this time was not included in the original agreed Audit Plan.

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

Indicator	Target	Performance 2011/12	Performance 2012/13	Performance 2013/14 (Estimates)
Cost/Auditor (£000)	‘Average’	£53.98 (£54.59) Avge	£60.99 (£55.91) Avge	£58.06 (£57.28) Avge
Pay Cost/Auditor (£000)	‘Average’	£40.49 (£41.77) Avge	£43.55 (£41.54) Avge	£43.28 (£ 42.08) Avge
Overhead Cost/Auditor (£000)	‘Average’	£13.49 (£12.82) Avge	£17.44 (£14.37) Avge	£14.78 (£15.20) Avge
Productive Days per Auditor	‘Average’	181 (166) Avge	161 (166) Avge	174 (173) Avge
Cost per Chargeable Audit Day	‘Average’	£348 (£358) Avge	£392 (£374) Avge	£313 (£359) Avge
% of Audit Plan Completed	Min 90%	90% (Revised Plan)	86% (Revised Plan)	88%
Level of Customer Satisfaction – per audit.	Good (3)	See para. 5.3.3below	See para. 5.3.3below	>Good (3.6) NB See para. 5.3.3below

NB (1) The Average (Avge) relate to the 'group' average figures obtained from the CIPFA Benchmarking Club. The 'group' relates to the Shire Districts who are members of the Benchmarking Club.

(2) The performance figures for 2013/14 are estimates. The 'actuals' figures for 2013/14 are due to be published in July 2014

- 5.3.3 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; 2 = Fair; 3 = Good; 4 = Very Good) on the audit. This is in accordance with the PSIAS which states that performance monitoring should include stakeholder feedback.
- 5.3.4 As at the end of March 2014, only a minimal number of survey forms had been completed and returned (19% response rate). Although the results of the survey indicate a 'Good' rating (average score 3.6) the results are being treated with an element of caution due to the relatively low response rate. As a result of this, a revised method of obtaining feedback is to be introduced during 2014/15. This should make the task of providing feedback a simpler process which, together with some support from SMT, should hopefully increase the level of feedback.
- 5.3.5 The work of each member of staff is controlled by the Audit, Risk & Assurance Manager to ensure compliance with the Standards. 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.
- 5.3.6 In order to help ensure audit staff keep up to date with current issues and techniques, work reviews and annual staff development reviews are carried out to identify any training and personal development needs. In addition, all appropriate staff are encouraged to register with a relevant Continuing Professional Development (CPD) scheme.
- 5.3.7 In accordance with the Accounts & Audit (England) Regulations 2011, the annual review of the effectiveness of internal audit has been undertaken. The conclusion from the review, which is the subject of a separate report to the Audit & Governance Committee on 26th June 2014, was that internal audit is effective.
- 5.3.8 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 JWA. The KPMG Interim Audit Report 2013/14 feedback is confirmed verbatim in report section 5.2.6.
- 5.3.9 In relation to staffing matters, the provision of the internal audit service to Gloucester City Council (GCC) and Stroud District Council (SDC) continued to be provided by Gloucestershire Audit & Assurance Partnership (**G A A P**). 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.

6.0 Alternative Options Considered

6.1 Not applicable.

7.0 Reasons for Recommendations

- 7.1 In accordance with the PSIAS and the Local Government Application Note for the UK PSIAS, the Council's Audit, Risk & Assurance Manager 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

- 8.1 The Council's Internal Audit Plan for 2014/15 was approved by the Audit & Governance Committee on 17th March 2014. Achievement against the Plan will be regularly reported to the Audit & Governance Committee via the Internal Audit Plan Quarterly Monitoring Report.

9.0 Conclusions

- 9.1 In conclusion, this report has been prepared in accordance with the PSIAS and the Local Government Application Note for the UK PSIAS, and provides the Audit, Risk & Assurance Manager's opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- 9.2 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.

10.0 Financial Implications

- 10.1 As detailed in the report

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

11.0 Legal Implications

- 11.1 None specific to this report.

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

12.0 Risk & Opportunity Management Implications

- 12.1 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.

13.0 People Impact Assessment (PIA):

- 13.1 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.

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

14.0 Other Corporate Implications

Community Safety

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

Sustainability

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

Staffing & Trade Union

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

Background Documents: Internal Audit Charter
Public Sector Internal Audit Standards
Local Government Application Note for the UK 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 (2012/13)	Controls relating to the reporting to SMT and Members of capital expenditure against budget.	
Utilities Contract Management	Controls relating to:- <ul style="list-style-type: none"> - The receipt of all reports agreed to be provided in the contract. There needs to be a considered analysis and regular review of these reports to enable effective contract management. - Checks to be performed on the meter readings & energy pricing prior to authorisation of the invoices. - The use of KPIs to help monitor the performance of the contractor. 	
Response Repairs Contract Management		Controls relating to:- <ul style="list-style-type: none"> - Current contract arrangements need to be fully reviewed to determine whether this is the most suitable method of procurement for this type of work. - The requirement to demonstrate value for money has been achieved with each job completed, particularly where the current contractor has not been used. - Compliance with Contract Standing Orders, for all works less than £5k, - Orders being raised prior to the purchase invoice, in line with the Council constitution. - Regular (monthly) review meetings with the contractor; quarterly Key Performance Indicators received and an Annual Performance Review. - Checks on the quality of the work being performed by both the contractor and other suppliers need to be fully documented and appropriately signed off.
Homelessness	Controls relating to :- <ul style="list-style-type: none"> - The release of payments from the Housing Options Fund. - The recovery from clients of tenancy rescue payments. 	
Streetcare		Controls relating to:-

Audit	Limited	Unsatisfactory
Contract Client Monitoring		<ul style="list-style-type: none"> - A full review of the Contract to identify the conditions and specifications had not been performed to determine how they are being managed and whether there are any gaps that require resolution. - Central registers for Service Change Requests or Contract Variations between the Council and the contractor. - Checks performed on the Annual Contract Sum. - The application of the annual indexation calculation by the contractor in the 2011/12 and 2012/13 Annual Contract Sums against the Contract resulting in a possible overpayment of £280k. - Work included in the 2012/13 Annual Contract Sum may have been incorrectly subject to the indexation calculation and therefore the Council may have been overcharged for these services. - Documentary evidence to support the change in the employers' pension contribution level paid by the Council. - Checking of contractor's invoices. Overpayments of approximately £13k were identified by Internal Audit. - Work orders are being incorrectly raised and invoices approved by Service areas and functions separate to the Environmental Service Manager. - Documentary evidence that quarterly accounts meetings with the contractor have been held to review a breakdown of costs of the Core Contract Services and to challenge spend.
BT&T	Controls relating to:- <ul style="list-style-type: none"> - BT&T Business Continuity Plan. 	
Social Media policy	Controls relating to:- <ul style="list-style-type: none"> - Periodic review of users, regular password changes, and, leavers. 	

Audit	Limited	Unsatisfactory
Council Tax	Controls relating to:- <ul style="list-style-type: none"> - Documentary evidence that Council Tax suppressed bills identified within the Batch Billing Exception Reports are being reviewed on a regular basis or in line with the reporting timeframe. 	
Non Domestic Rates	Controls relating to:- <ul style="list-style-type: none"> - Documentary evidence that Council Tax suppressed bills identified within the Batch Billing Exception Reports are being reviewed on a regular basis or in line with the reporting timeframe. 	
Parking	Controls relating to:- <ul style="list-style-type: none"> - Checking of current staff/member parking permits to ensure correct payments are being made; - Issue of cases to, and receipt of payments from, the bailiff. 	
Budgetary Control	Controls relating to:- <ul style="list-style-type: none"> - Audit trail to confirm complete or consistent cost centre manager (service level) budget monitoring for April to October 2013. - Reporting to Members - Only two budget monitoring reports (year end forecast) had been presented to Members during the year. - Supporting documents with authorisation for all budget virements completed within 2013/14. 	
Capital Accounting (2013/14)	Controls relating to:- <ul style="list-style-type: none"> - The capital programme setting and monitoring reports to Members should be in accordance with Constitution requirements. - The lack of capital monitoring reports issued to Members for review and scrutiny in 2013/14. 	
Catering – Arbor	Controls relating to:- <ul style="list-style-type: none"> - Till reconciliations. - Recording and monitoring of stock and waste levels. - Use of Petty cash. - Raising of approved purchase orders. - Security arrangements regarding storage of the safe key and the amount of cash held on site. 	

Audit	Limited	Unsatisfactory
Catering – Docks	Controls relating to:- <ul style="list-style-type: none"> - Daily reconciliation of takings to expected income. - Coding of VAT. - The offers of gifts and hospitality. - Recording and monitoring of stock and waste levels. - Raising of sundry debtor invoices for external catering and room hire. 	
Payroll	Controls relating to :- <ul style="list-style-type: none"> - Management review of exception reports. 	