

**Internal Audit Annual Report and
Assurance Statement 2012/13
26 June 2013**

Report of Internal Audit Manager

PURPOSE OF REPORT

To inform the Committee of the extent and outcome of Internal Audit work during the 2012/13 financial year and to present an annual Statement of Assurance regarding the Council's Internal Control Framework.

This report is public

RECOMMENDATIONS

1. **That the report be noted.**
2. **That the Controls Assurance Statement (paragraphs 2.12 to 2.22) be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement which will be presented to the September meeting of the Committee.**

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To receive the annual Internal Audit Report and Controls Assurance Statement* (the Constitution, part 3 section 8, TOR 11). The Code of Practice for Internal Audit¹ specifies that the Head of Internal Audit must "... provide a written report to those charged with governance timed to support the Statement on Internal Control". The report and assurance statement thus makes a significant contribution to the Council's statutory duty to undertake an annual review of the Internal Control framework and publish a Statement on Internal Control.

2.0 Report

- 2.1 Internal Audit is established as a section of Resources, reporting administratively to the Head of Resources and functionally to the council's senior management and Audit Committee. Professionally, it has operated to standards set out in the CIPFA Code of Practice for Internal Audit and has operated and reported in accordance with an approved Audit Charter.
- 2.2 Proposals relating to new Public Sector Internal Audit Standards effective from 01/04/13, and a revised Internal Audit Charter are included elsewhere on this agenda.

¹ *Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA 2006)*

Annual Audit Plan 2012/13

- 2.3 Internal Audit plans and assignments are developed on a risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The 2012/13 Internal Audit Plan was approved by the Audit Committee at its meeting on 18th April 2012. Adjustments to the plan were approved by the Committee at its meetings on 19th September 2012 and 23rd January 2013. The annual outturn position was reported to the Committee on 24th April 2013, the summarised of which is replicated in the following table.

Area of work	Resources (days)			
	Original Plan	Revised Plan (23/01/13)	Actuals	Variance
Assurance Audit				
Core Financial Systems	60	111	129	(18)
Revenues & Benefits Shared Services	85	64	65	(1)
Core Management Arrangements	110	40	36	4
Risk Based Assurance Audits	135	150	134	16
Follow-Up Reviews	60	55	52	3
Sub-Total, Assurance Work	450	420	416	4
Advice & Support Work	95	144	145	(1)
Investigations	30	15	12	3
Audit Management	55	49	57	(8)
Other Duties (Non-Audit)	15	21	21	0
Work for Other Bodies (LDNPA)	0	0	11	(11)
General Contingency	40	19	0	19
Total Chargeable Days	685	668	662	6
Non-Chargeable Activities (note1)	95	119	122	-3
Total Available Days	780	787	784	3

Note 1 Non-chargeable activities include team meetings, section and service management, general administration, EDPA, regional audit group meetings, etc.

Explanation of Major Variances

- 2.4 The summary shows that, whilst the number of available days rose during the year, the number of chargeable days delivered were down by 6 days on the revised plan and by 23 days on the original plan. There are a number of factors contributing to this outcome, including an increase in internal training activities and duties associated with structural/managerial changes within the Council.
- 2.5 Within the main programme of Assurance Work, additional time has been taken on audits of core financial systems, this being mainly in the areas of Purchasing Ordering and Creditor Payment Processes in Environmental Services and in Income Management.
- 2.6 Overall, 34 days fewer than originally planned were delivered on the core programme of assurance audit work.





- 2.7 Elsewhere in the plan, the most significant change has been in the time allocated to “Support Work”. The budget for this work was increased during the year from 30 to 79 days and the final out-turn was 71 days. This reflects the work associated with the Complaints Officer Working Group and the development of a new Customer Complaints policy. Other significant areas have been the review of Contract Procedure Rules (completed) and Financial Regulations (ongoing) and ongoing work associated with Information Security and the Public Services Network.
- 2.8 In the last quarter of the year, the Internal Audit team undertook two short pieces of audit work for the Lake District National Park Authority, accounting for 11 days.

Review of the Effectiveness of Internal Audit

- 2.9 The Accounts & Audit Regulations 2011 require the Council to conduct an annual review of the effectiveness of internal audit and for a committee of the Council to consider the findings. This process is part of the wider annual review of the effectiveness of the system of internal control and governance. A report on this review will be included within the report on the annual review of governance to be considered at the next meeting of the Committee.

Results of Assurance Work





- 2.10 In all cases, completed assurance audits have resulted in the production of a report and action plan, agreed by managers and submitted for consideration by the Audit Committee. The assurance system uses four levels of opinion, as follows:

Level of assurance	Image	Definition
Maximum		The Authority can place high levels of reliance on the arrangements/controls. Best practice is demonstrated in some or all areas.
Substantial		The Authority can place substantial (i.e. sufficient) reliance on the arrangements/controls. Only relatively minor control weaknesses exist.
Limited		The Authority can place only limited reliance on the arrangements/controls. Significant control issues need to be resolved.
Minimal		The Authority cannot place sufficient reliance on the arrangements/controls. Substantial control weaknesses exist.

- 2.11 The Table in Appendix A sets out the assurance opinions issued from audits and follow-up reviews completed since 31st March 2012, and any subsequent changes in assurance level.

Controls Assurance Statement

- 2.12 It must be recognised that Internal Audit can be expected to provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist.
- 2.13 This assurance statement is drawn from both the results of individual internal audit assignments and the results of follow-up reviews into previously completed audits, as reflected in the contents of Appendix A. The following table summarises the assurance opinions covered in the appendix, based on the most recent review, with the previous year’s totals, for comparison.

Assurance Level (most recent review)	Number of Audit Opinions				
	2012/13				2011/12
	Financial Audits	Governance Audits	Other Audits	Total	
Maximum 	1	0	0	1	7
Substantial 	7	3	7	17	13
Limited 	3	1	2	6	4
Minimal 	0	1	0	1	0
Totals	11	5	9	25	24

- 2.14 Through established procedures, the Audit Committee will continue to receive updates on progress with those audits which have not reached at least the “substantial” assurance level. At present this consists of the one audit with “minimal” assurance and the seven audits whose assurance ratings stand as “limited”. These procedures for reporting and following up audits and reporting progress to Audit Committee continue to operate effectively.

Financial Systems Audits

- 2.15 This relates to eleven financial system audits. Assurance levels on the Council’s key corporate financial systems remain consistently high. A “maximum” assurance opinion was issued in relation to the council’s Council Tax administration. Three audits resulted in a “limited” assurance opinion, these being in relation to:
- Asset management (maintenance of inventories);
 - Purchase ordering and creditor payment processes – Environmental Services;
 - Debt Management – Council Housing
- 2.16 Action is being taken to improve the standard of inventories maintained throughout the council and this is an area of relatively low risk. In the latter two cases, action plans have been developed to review operations and address inefficiencies in the systems involved.
- 2.17 Given the work undertaken, it is the Internal Audit Manager’s opinion that effective internal controls exist to ensure the accuracy and integrity of the key financial systems and that no significant ongoing control weaknesses have been identified.

Governance Arrangements

- 2.18 A “substantial” assurance opinion was issued on three of the five governance audits undertaken. An audit covering the council’s complaints policy and procedures originally resulted in a “minimal” opinion which was subsequently raised to “limited” at follow-up. Greater assurance will be delivered as the new policy and procedures are implemented; the Committee will receive further updates on this issue.
- 2.19 One audit during the year, into “Information Security and the use of Emails” resulted in “minimal” assurance. This audit has resulted in an ongoing programme to raise standards throughout the council and an undertaking has been made to keep the Audit Committee informed of progress.
- 2.20 In the Internal Audit Manager’s view, the extent of the issues surrounding information security and the plans in place to address those issues are of sufficient significance to warrant specific mention in the annual governance statement.

Other Audits

2.21 This section covers nine audits, three of which resulted in a “limited” assurance opinion, these being in relation to:

- IT Standards and change control;
- Septic tanks; and
- Affordable warmth

2.22 In the Internal Audit Manager’s opinion, no control weaknesses have been identified which are so significant as to warrant disclosure in the Council’s Annual Governance Statement. Where control weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions and the level of assurance provided.

3.0 Details of Consultation

3.1 No specific consultation has been undertaken in compiling this report.

4.0 Options and Options Analysis (including risk assessment)

4.1 The proposal is that the Committee accepts Internal Audit’s assurance statement as a contribution to the overall assessment of the Internal Control and Corporate Governance Statement. No alternative options are identified.

5.0 Conclusion

5.1 The work of Internal Audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2012/13 financial year, Internal Audit’s work has provided assurance in a variety of areas as well as incorporating input and contribution to the development of a number of key systems and processes.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising from this report.

SECTION 151 OFFICER’S COMMENTS

The Section 151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER’S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Internal Audit Plan 2012/13

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