



Internal Audit - Annual Report

2012 - 2013

May 2013

DRAFT

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## 1. FOREWORD

The annual audit plan for 2012/13 has been delivered in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom ('the Code'). As well as complying with the Code, Internal Audit has complied with its Mission Statement and Terms of Reference, both of which have previously been approved by the Audit Committee and are outlined below.

## 2. MISSION STATEMENT

"To contribute to the achievement of Argyll and Bute Council's mission and strategic objectives by providing assurance to the Council that financial and operational controls and arrangements for Best Value are functioning efficiently and effectively, and that the significant risks to the organisation are being managed."

## 3. TERMS OF REFERENCE

Internal Audit is responsible for advising all levels of management and the Council (through its Audit Committee), on the Council's systems of internal control. It is a review activity which continuously reinforces line management's responsibility for effective internal controls. Internal audit supports:

- Management's organisational objectives; and
- The Audit Committee's need for overall assurance on the quality and cost effectiveness of risk management systems and internal controls.

## 4. REPORTING RESPONSIBILITIES

The reporting responsibilities of Internal Audit are:

### **Section 95 Officer/Head of Strategic Finance**

Internal Audit reports directly to the Head of Strategic Finance who is also the Section 95 Officer and holds bi-weekly meetings to discuss the effectiveness of the system of internal control operated within the Council and Internal Audit performance against plan.

### **Chief Executive**

Internal Audit has a dotted line responsibility to the Chief Executive with monthly meetings held covering progress of the annual audit plan, issued reports and areas of concern.

### **Audit Chairman**

Internal Audit has a dotted line responsibility to the Audit Chairman; discussions take place on a regular basis covering progress of the Annual Audit Plan, issued reports and areas of concern.

### **Audit Committee**

Internal Audit prepares and facilitates reports for the Audit Committee and in 2012/13; the following report areas were presented:

External and Internal Audit Annual Plans	Corporate Performance
External and Internal Audits	Risk Management
Audit Scotland/Commission National Reviews	Business Continuity
National Fraud Initiative Exercise	Key Council Issues

## External Audit

It is the responsibility of Internal Audit to co-ordinate its activities with External Audit and in 2012/13 Audit Scotland sought to place reliance on the following areas of internal audit work:

Non Domestic Rates	Trade Receivables
Council Tax	Financial Ledger
Payroll	Treasury Management
Trade Payables and Purchasing	Capital Accounting

Under the Code of Audit Practice, External Audit will place reliance on the work of internal audit in the following areas:

- Performance Management Arrangements; and
- Statutory Performance Indicators.

## Auditee

Internal Audit in 2012/13 maintained contact with Executive Directors and Heads of Service individually and through Departmental Management Teams (DMTs) and the Strategic Management Team (SMT), throughout the financial year. Internal Audit provided management with an independent and objective opinion on their controls and risks, recommending changes where appropriate through dialogue, audit reporting with graded recommendations set out in an agreed action plan.

In 2012/13, Internal Audit altered its approach from agreeing all audit scope and objectives prior to commencement of the financial year to just before an audits commencement. Management has been supportive of this change as it has improved definition, engagement and control performance.

## 5. AUDIT PLAN 2012/13

In compliance with the CIPFA Code of Practice for Internal Audit in Local Government, the annual plan for 2012/13 was presented to the Audit Committee in March 2012; the plan was compiled from an analysis covering four key headings as set out in the table below.

1.	Materiality – An assessment of financial data;
2.	Risk – Assessment of operational, strategic and reputational damage;
3.	Control Effectiveness - Assessing external and internal reviews and reports;
4.	Performance Management – Assessing corporate, service and improvement plans.

The output from the analysis exercise was verified with Executive Directors and Heads of Service individually and through meetings with Departmental Management Teams (DMTs) and the Strategic Management Team (SMT). Thereafter, a final draft audit plan was presented to both the SMT and Audit Committee for approval.

In addition, the audit plan included contingency days for special investigations, reporting recommendation implementation and national fraud initiative work.

## 6. GOVERNANCE & INTERNAL CONTROL STATEMENT 2012/13

The Customer Services Department annually test Council compliance with the Code of Corporate Governance. The Code requires the Council to have in place

appropriate management and reporting arrangements. The role of Internal Audit is to be satisfied that the Council approach to Corporate Governance is adequate and effective. It does this through reviewing the evidence collected by Governance and Law.

In addition, Internal Audit reviews the results of its own internal financial control audits and the reports of External Audit. These audit reports are reviewed along with departmental internal control statements prepared and signed by the Executive Directors.

Once the above review work is done a draft joint statement is presented to the Strategic Management Team (SMT) and the Audit Committee for review at their annual meeting in June. The statement once approved is then forwarded for signing by the Council Leader, Chief Executive and Head of Strategic Finance. The draft joint statement of governance and internal control is the subject of a separate report to the Audit Committee.

## 7. PROGRESS OF THE ANNUAL AUDIT PLAN 2012/13

A total of 55 audit areas were planned for the financial year and these were allocated within the categories set out below:

<b>Audit Plan by section 2012 - 2013</b>	<b>Planned</b>	<b>Actual</b>
Financial Control Audits	18	20
Business Systems Audits	15	12
Corporate Performance Audit Areas	16	16
Corporate & Service Plans	6	6
<b>Total</b>	<b>55</b>	<b>54</b>

In addition special investigation, recommendation implementation reporting and national fraud work was undertaken. In 2012/13, adjustments were made to the annual plan and these have been reported to the Audit Committee on a quarterly basis.

In April 2012, there were 18 planned Financial Control Audits outlined in the audit plan, a further three audits were included from the Business Systems section of the audit plan due to their pertinence. This brought the total financial audits to 21. At the end of the financial year twenty audits had been undertaken with one audit Car Allowances and Subsistence suspended then deferred till 2013/14 due to systems developmental issues.

At the commencement of the audit plan there were 15 Business Systems audits planned. As noted above three were transferred to the Financial Control audit plan section. Of the remaining 12 all were undertaken.

Corporate Performance audit work was undertaken in 2012/13 and covered both Statutory Performance Indicators and Best Value 2 performance. In total sixteen audit areas were planned and all were reviewed. Two reports were prepared one reporting on the audit of the Councils Statutory Performance Indicators and one main report bringing all of the best value audit work together.

The only area of the plan where audits were not defined was for Corporate and Service Plans. The database used to prepare the Annual Audit Plan identified and ranked service specific audit areas. In discussion with both Executive Directors and Heads of Service a total of six audit areas were agreed with final reports issued.

Contingency audit days were set out within the Annual Audit Plan to cover special investigations, External and Internal Audit Follow-up reporting of agreed recommendations and National Fraud Initiative (NFI) work. The table below provides an overview of days expended.

<b>Audit Plan by section 2012 - 2013</b>	<b>Planned</b>	<b>Actual</b>	<b>Variance</b>
Special Investigations	50	74	+24
External and Internal Reporting	80	66	-14
National Fraud Initiative (NFI)	39	49	+10

The planned days for Special Investigation work was estimated to be 50 days which was a reduction from 2011/12 when 100 days were estimated but only 33 were expended. The 50 day allocation was expended early in 2012/13 when staff was transferred to support investigations work. An additional 24 days was then required to cover another investigation which was reported the Audit Committee in September and December 2012. Additional days were brought in from other areas in the audit plan and the Audit Committee was advised accordingly through quarterly audit plan progress reports. External and Internal Audit recommendation follow-up days came in under estimate with departmental service key contacts providing timely responses on recommendation implementation by management. The NFI exercise was completed incurring 10 additional days from planned due to final reporting work; however, the Council efforts were noted in the Audit Scotland National Report for the 2011/12 exercise.

### **Resource Allocation 2012/13**

The 2012/13 audit plan was based on five full time posts with the total available days for direct audit work of 909 days after deductions for non direct audit work and public and annual leave, etc. One of the Accountants posts was not filled until September 2012 and in December 2012 one member of the internal audit team left, this resulted in a shortfall of one hundred and seventy days from planned audits day total of nine hundred and nine. To redress the shortfall one hundred and fifty eight days were obtained from contractors. The table below supports the above paragraph.

<b>Audit Day Analysis</b>	<b>Total</b>
Audit Days Planned March 2012	909
Accountant post vacant till Sept 2012 and Staff Leaver Dec 2012.	(170)
Contract Auditors days for shortfall	158
<b>Days expended</b>	<b>897</b>

Appendix 2, details the audits undertaken by Internal Audit for the financial year 2012/13.

## **Audit Opinion**

Based on audit work carried out in 2012/13 by Internal Audit, I am of the opinion that subject to the matters listed in the Statement of Governance and Internal Control being actioned, reasonable assurance can be taken that the systems of governance and internal control are operating effectively.

The review of corporate governance undertaken by internal audit has indicated that the systems for governance are operating effectively, and a Draft Joint Governance and Internal Control Statement has been produced. The Draft Statement will be presented to the Strategic Management Team (SMT), Audit Committee and Executive. With specific regard to internal control, audit reports have indicated certain matters which are currently being addressed by management, and my opinion on the Council's systems is based on those recommendations being satisfactorily implemented.

In conclusion, the Annual Audit Plan for 2012/13 has been completed. The Governance Group who oversees the governance process has accepted the assurance provided by Internal Audit, and the Strategic Management Team (SMT) and the Audit Committee is asked to accept the same assurance, based on the audit work completed in 2012/13.

## **8. ANALYSIS of 2012/13**

The amended audit plan has been completed and in particular:

- Quarterly reports have been prepared for the Audit Committee advising of progress with the Annual Audit Plan;
- Reports covering External and Internal Audit recommendation implementation follow up have been provided to DMTs, SMT and Audit Committee.
- In 2012/13 following discussion with departmental Executive Directors and Heads of Service the process for agreeing audits was updated to agreeing audit timings in advance with audit scope and objectives agreed prior to the commencement of an audit. This process change has received support from management.
- In 2012/13 Internal Audit held monthly meetings with both the Head of Strategic Finance and Chief Executive to discuss audit plan progress, audit reports and recommendations.
- The Audit Committee receive final internal audit report extracts after issue to management for action.
- Two audit areas within the audit plan went over estimated days. One was Statutory Performance Indicators (SPIs) where information was supplied incomplete for one set of performance indicators and additional days were required to test data validity. The second was National Fraud Initiative (NFI) where additional days were incurred for data evaluation work for final submitted data;
- Joint audit work was completed between Internal Audit and Audit Scotland; and
- Analysis of returned client questionnaires in 2012/13 indicates that an average approval score of 3.7 was achieved by Internal Audit. The target for the section is to achieve 3 or better from the auditee who is judging the audit work undertaken as beneficial. The highest auditee approval score achievable is 4.

## 9. INTERNAL AUDIT PERFORMANCE

At the Audit Committee Away Day in February 2013, Members of the Audit Committee were provided with a copy of the Internal Audit - Performance Indicators (PIs) reported annually to the June committee. One additional indicator was requested and this related to the committee receiving a view from External Audit on Internal Audit performance. The new indicator results are attached in Appendix 1. They are set out under two headings:

- 6 **Input**; and
- 6 **Output** indicators.

Internal Audit will strive to maintain and improve on the quality standards achieved.



## APPENDIX 2

### INPUT PERFORMANCE MEASURES 2012/13

Ref	Performance Indicator	Target	Achieved 2012/13	Comment
1.	Percentage of audit work carried out by qualified and specialist staff.	65%	Yes	67% Achieved
2.	Issue of draft reports within 10 working days of work being completed.	10 days – 100%	Yes	Achieved
3.	Issue of final reports within 5 working days of management responses being received.	5 days – 100%	Yes	Achieved
4.	Reports display: clear opinion; action plan of prioritised recommendations and management responses; a person responsible; and date for completion.	All reports (100%) state a clear conclusion/opinion; contain an action plan, prioritised recommendations, allocated responsibility and target dates for completing recommendations.	Yes	Achieved
4.	Management's feedback on audit planning and fieldwork.	To achieve 'average' or better in questionnaire ratings. (i.e.: a mean score of '3' or more for each question)	Yes	3.7 Achieved.
5.	Percentage of direct audit time	Target 81%	Yes	85% Achieved

## APPENDIX 2

### OUTPUT PERFORMANCE MEASURES 2012/13

Ref	Performance indicator	Target	Achieved 2012/13	Comment
1.	Audit operational plan to be submitted to the audit committee by 31 March each year.	31 March of each year (100%)	Yes	Achieved.
2.	Follow-ups to be performed within one year of the audit-taking place.	100% of recommendations followed up in following year	Yes	Achieved.
3.	Completion of the Annual Audit Plan subject to variations agreed by Audit Committee.	100%	Yes	Achieved.
4.	Recommendations accepted compared to recommendations made.	Fundamental/High – 100% Material/Medium – 100% Minor/Low – 100%	Yes	Achieved.
5.	Internal audit costs are within budget (including in-year budget variations)	Total costs were within budget.	Yes	Achieved.
6.	External audit comment on internal audit performance.	External audit places reliance on internal audit.	Yes	Achieved.

## APPENDIX 2

### Assessment of Audit Days: 2012/13 Annual Plan

AUDIT WORK SCHEDULE AS AT 31 March 2013	Last audited	Risk ranking	Original Estimated Audit Days 2012/13	Revised Estimated Audit Days 2012/13	Actual Audit Days 2012/13	Balance
<b>FINANCIAL CONTROL AUDITS</b>					.	
Cash Income and Banking	2010	2	15	15	15	0
Creditor Payments	2010	3	10	10	10	0
Stock Taking / Work in Progress	2010	3	10	10	10	0
Car Allowances and Subsistence	2011	3	10	10	2	8
Government & European Grants	2010	1	20	30	30	0
Payroll	2011	2	15	15	19	-4
Debtor Accounts	2010	2	15	15	15	0
Council Tax	2010	1	20	20	20	0
Non-Domestic Rates	2010	2	15	15	15	0
Capital Accounting	2010	2	15	15	15	0
Treasury Management	2012	3	10	10	10	0
Contract Operating Leases	2012	3	10	10	9	1
Budgetary Preparation and Control	2011	1	20	20	20	0
General ledger operations	2012	3	10	10	10	0
Capital Contracts	2011	2	15	15	15	0
Tendering Procedures	2011	2	15	15	15	0
Unified Benefit System	2010	2	15	15	15	0
Procurement	2010	2	15	15	15	0
eProcurement	2010	3	10	10	10	0
ResourceLink	2011	2	15	15	15	0
Electronic Timesheets	2010	4	5	5	5	0
<b>Section Total</b>			<b>285</b>	<b>295</b>	<b>292</b>	<b>4</b>

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AUDIT WORK SCHEDULE AS AT 31 March 2013	Last audited	Risk ranking	Original Estimated Audit Days 2012/13	Revised Estimated Audit Days 2012/13	Actual Audit Days 2012/13	Balance
<b>BUSINESS SYSTEMS AUDITS</b>						
Planning/Building Standards	2010	2	15	15	15	0
Environmental Health	2011	3	10	10	10	0
Customer Service Centre	2010	3	10	10	10	0
Leisure Management System	2010	3	10	10	10	0
IKEN Case Management	2010	4	5	5	5	0
Library Management System	2011	4	5	5	5	0
Licensing	-	4	5	5	5	0
Fleet Management	2010	3	10	10	10	0
Care First	2010	2	15	15	15	0
Comino	2011	3	10	10	10	0
Roads Costing System	2010	3	10	10	9	1
Pyramid Performance Management	2011	4	5	5	5	0
<b>Section Total</b>			<b>110</b>	<b>110</b>	<b>109</b>	<b>1</b>

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AUDIT WORK SCHEDULE AS AT 31 March 2013	Last audited	Risk ranking	Original Estimated Audit Days 2012/13	Revised Estimated Audit Days 2012/13	Actual Audit Days 2012/13	Balance
<b>CORPORATE PERFORMANCE AUDITS</b>						
Statutory Performance Indicators (SPIs)	2011	2	15	15	25	-10
Asset Management Partnerships	2011	1	20	20	18	2
Procurement	2010	1	20	20	15	5
Information Management	2011	2	15	15	14	1
Governance and Accountability	2010	2	15	15	13	2
Financial Management	2010	2	15	15	12	3
People Management	2010	3	10	10	8	2
Risk Management	2010	3	10	10	9	1
Sustainability	2010	3	10	10	10	0
Equality	2010	4	5	5	5	0
Performance Management	2010	4	5	5	5	0
Efficiency	2010	4	5	5	5	0
Public Performance Reporting	2011	4	5	5	5	0
Partnerships	2012	4	5	5	5	0
Community & Customer Engagement	2011	4	5	5	5	0
Customer Focus	2011	4	5	5	5	0
<b>Section Total</b>			<b>165</b>	<b>165</b>	<b>157</b>	<b>8</b>

## APPENDIX 2

### Assessment of Audit Days: 2012/13 Annual Plan

AUDIT WORK SCHEDULE AS AT 31 March 2013	Last audited	Risk ranking	Original Estimated Audit Days 2012/13	Revised Estimated Audit Days 2012/13	Actual Audit Days 2012/13	Balance
<b>CORPORATE/SERVICE PLANS</b>						
Customer Services – Corporate Governance	2011	1	15	15	15	0
Community Services – Payroll	2011	1	20	20	19	1
Community Services – Cash & Income Banking	2011	1	20	20	20	0
Chief Executive’s Unit – Procurement	2010	1	10	10	10	0
Development & Infrastructure Services – Piers & Harbours	2011	1	35	35	34	1
Corporate	2011	1	80	45	44	1
<b>Section Total</b>			<b>180</b>	<b>145</b>	<b>143</b>	<b>2</b>
<b>Overall Audit Section Total</b>			<b>740</b>	<b>715</b>	<b>700</b>	<b>15</b>
<b>Special investigations contingency</b>			<b>50</b>	<b>75</b>	<b>74</b>	<b>1</b>
<b>Other Areas</b>						
Follow-up External & Internal Audit Management Letter Points	2011		80	70	66	4
NFI	2011		39	39	49	-10
Inverclyde Charity & Trust Accounts	2011		0	10	8	2
<b>Section Total</b>			<b>119</b>	<b>119</b>	<b>123</b>	<b>-4</b>
<b>TOTAL</b>			<b>909</b>	<b>909</b>	<b>897</b>	<b>12</b>