



## **Internal Audit - Annual Report**

2013 - 2014

June 2014

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## **1. FOREWORD**

The annual audit plan for 2013/14 has been delivered in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom ('the Code') and the Public Sector Internal Audit Standards (PSIAS). Internal Audit also complies with the Service Outcome and Terms of Reference, both of which have previously been approved by the Audit Committee and are outlined below.

## **2. SERVICE OUTCOME**

Assurance is provided that financial and management controls are operating effectively.

## **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. The Chief Internal Auditor meets with the Head of Strategic Finance 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. The Chief Internal Auditor meets regularly with the Chief Executive, 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.

## **Audit Committee**

Internal Audit prepares and facilitates reports for the Audit Committee and in 2013/14; the following report areas were presented:

Internal Audit Annual Plans	Internal Audits
Risk Management	Audit Scotland National Reviews
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 2013/14 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 also place reliance on the work of internal audit in the following areas:

- Performance Management Arrangements; and
- Statutory Performance Indicators.

## **Auditee**

Internal Audit in 2013/14 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 2013/14, Internal Audit altered its approach and the format of reports in line with PSIAS good practice.

## **5 PROFESSIONAL STANDARDS**

A new set of professional standards for Public Sector Internal Audit became effective during the year. The Internal Audit Team along with Grant Thornton and CIPFA commenced on an assessment against the new standards. As a result of the assessment an action plan was developed to outline areas for improvement. Good progress has been made with the action plan.

During the year compliance with PSIAS was the focus of many elements of Internal Audit work including:

- Exercise to assess current practises and areas for development and improvement.
- Development and approval of the Audit Charter.
- Format and content of new Terms of Reference document to replace Audit Agreement Document.
- Design and content of new style Internal Audit reports.

## **6. AUDIT PLAN 2013/14**

In compliance with the CIPFA Code of Practice for Internal Audit in Local Government, the annual plan for 2013/14 was presented to the Audit Committee in March 2013; 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 of 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.

## **7. GOVERNANCE & INTERNAL CONTROL STATEMENT 2013/14**

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 provide assurance that the Council approach to Corporate Governance is adequate and effective. It does this through reviewing the evidence collected by Governance and Law.

Internal Audit reviews the results of its own 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.

## 8. PROGRESS OF THE ANNUAL AUDIT PLAN 2013/14

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

<b>Audit Plan by section 2013 - 2014</b>	<b>Planned</b>	<b>Actual</b>
Financial Control Audits	14	12
Business Systems Audits	7	5
Corporate Performance Audit Areas	1	1
Corporate & Service Plans	8	7
<b>Total</b>	<b>30</b>	<b>25</b>

In addition special investigation, recommendation implementation reporting and national fraud work was undertaken. In 2013/14, adjustments were made to the annual plan and these have been reported to the Audit Committee on a quarterly basis.

In April 2013, there were 14 planned Financial Control Audits. At the end of the financial year, 12 audits had been undertaken with two audits General Ledger Operations and Capital Contracts and Operating Leases deferred until 2014/15 due to systems developmental issues.

At the commencement of the audit plan there were 7 Business Systems audits planned. Of these 5 were undertaken with two audits Pyramid Performance Management and IT Strategy deferred until 2014/15.

Corporate Performance audit work was undertaken in 2013/14 and covered Statutory Performance Indicators.

Corporate and Service Plans audits were planned in discussion with both Executive Directors and Heads of Service a total of 8 audits were planned, 7 were undertaken, Marine Services has been delayed.

Contingency audit days were set out within the Annual Audit Plan to cover special investigations.

### **Resource Allocation 2013/14**

The 2013/14 audit plan was based on five full time posts with the total available

days for direct audit work of 915 after deductions for non direct audit work and public and annual leave, etc. A Senior Audit Assistant post was not filled until July, long term absence and work carried out around PSIAS compliance, impacted on the available days. This resulted in both a delay to the completion of the plan and a requirement to purchase specialist assistance. Actual audit days carried out by Internal Audit staff were 462 with Grant Thornton providing assistance in the form of audit management and completion of the Risk Management Audit.

Appendix 2, details the audits undertaken by Internal Audit for the financial year 2013/14.

### **Audit Opinion**

Based on audit work carried out in 2013/14 by Internal Audit, I am of the opinion that subject to the matters listed in the Statement of Governance and Internal Control being actioned, substantial 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.

The Annual Audit Plan for 2013/14 was revised as a result of resourcing issues and additional requirement to address PSIAS good practise.

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 are asked to accept the same assurance, based on the audit work completed in 2013/14.

## **8. ANALYSIS OF 2013/14**

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 2013/14 Internal Audit held regular 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.
- Analysis of returned client questionnaires in 2013/14 indicates that an average approval score of 3.9 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.

The new partnership with Grant Thornton and CIPFA has offered specialist support and advice over a challenging period.

## **9. INTERNAL AUDIT PERFORMANCE**

Of the 12 Performance Indicators for Internal Audit, 8 have been achieved during the 2013/14 financial year. Four have fallen short of their target due to issues with resourcing and preparation for compliance with new professional standards.

Performance Indicators (PIs) for Internal Audit are shown at Appendix 1.

## **10. Overview**

It has been a challenging year for Internal Audit with regards to resourcing which resulted in delays to completion of audits and revisions to the Audit plan which consequently impacted on performance measures. However, good progress was made in a number of areas particularly the significant work undertaken addressing the requirements of PSIAS. Management and External Audit continue to place positive reliance on the work of Internal Audit. Furthermore in its ongoing development the Audit Committee introduced a number of changes giving additional assurance in relation to:

- introducing regular updates of progress by the External Audit team of their Audit Plan;
- revision to the approach the Council takes to dealing with Audit Scotland National reports;
- enhancing the use of the Strategic Risk Register including the inclusion of an assessment of scoring /risk appetite;
- securing a report on the approach to mitigation actions to address economic and population decline (a current red risk);
- using the new Public Sector Internal Audit Standards (PSIAS) to introduce the internal audit charter and improve the process of scoping and signing off internal audits;
- strengthening the process of annual audit plan preparation by the use of a developed risk matrix methodology



## APPENDIX 1

### INPUT PERFORMANCE MEASURES 2013/14

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%	No	72% Achieved due to resource issues and move to new standards
3.	Issue of final reports within 5 working days of management responses being received.	5 days – 100%	No	81% Achieved due to resource issues and move to new standards
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
5.	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	3.9 Achieved.
6.	Percentage of direct audit time	Target 81%	No	63% Achieved due to resource issues and move to new standards

## APPENDIX 1

### OUTPUT PERFORMANCE MEASURES 2013/14

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. A working draft was submitted to the March Audit Committee with discussion and update following Audit Committee development day.
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%	No	89% Achieved due to resource issues and move to new standards
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: 2013/14 Annual Plan

AUDIT WORK SCHEDULE AS AT 31 March 2014	Last audited	Risk ranking	Original Estimated Audit Days 2013/14	Revised Estimated Audit Days 2013/14	Actual Audit Days 2013/14	Balance
<b>FINANCIAL CONTROL AUDITS</b>						
Stock and Work in Progress	2012/13	2	15	15	12	3
Cash & Income Banking	2012/13	1	20	20	18	2
Council Tax	2012/13	1	15	15	15	0
Non Domestic Rates	2012/13	2	15	10	9	1
Debtor Accounts	2012/13	2	15	15	8	7
Government & European Grants	2012/13	1	20	25	27	-2
Car Allowances & Subsistence	2012/13	2	15	15	16	-1
Budgetary Preparation and Control	2012/13	1	20	20	12	8
Universal Credit	2012/13	2	15	15	7	8
Treasury Management	2012/13	1	20	20	18	2
Procurement	2012/13	1	20	20	19	1
Creditor Payments and Tendering Procedures	2012/13	2	40	25	23	2
<b>BUSINESS SYSTEMS AUDITS</b>						
Care First	2012/13	1	20	20	16	4
Uniform System	2012/13	1	20	20	9	11
Customer Service Centre	2012/13	2	15	15	9	6
Data Protection	2010	1	20	20	21	-1
Fleet Management and Roads Costing	2012/13	2	35	25	25	0
<b>CORPORATE PERFORMANCE AUDITS</b>						
Statutory Performance Indicators (SPIs)	2012/13	2	20	25	22	3

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### Assessment of Audit Days: 2013/14 Annual Plan

AUDIT WORK SCHEDULE AS AT 31 March 2014	Last audited	Risk ranking	Original Estimated Audit Days 2013/14	Revised Estimated Audit Days 2013/14	Actual Audit Days 2013/14	Balance
<b>CORPORATE/SERVICE PLANS</b>						
Community Services - Health & Safety (Leisure)	-	1	15	15	15	0
Community Services - Outwith Authority Placements	-	1	25	25	22	3
Customer Services - Business Continuity	2012/13	1	15	15	12	3
Development & Infrastructure Services – Section 75 Planning Obligations	-	1	15	15	13	2
Development & Infrastructure Services – Marine Services	2012/13	1	15	15	0	15
Customer Services - School meals	-	1	10	23	23	0
Community Services – Allocating ASN Assistants Process	-	1	10	10	21	-11
RISK Management	2012/13	1	0	10	10	0
<b>Special investigations contingency</b>			<b>100</b>	<b>100</b>	<b>60</b>	<b>40</b>
<b>TOTALS</b>			<b>565</b>	<b>568</b>	<b>462</b>	<b>106</b>