

# Audit and Governance Committee Report



## 3 July 2014

Report of: **Interim Audit Manager**

Author: **Craig Pullen**

Telephone: **01235 547615**

Telephone: **01491 823544**

E-mail: [craig.pullen@southandvale.gov.uk](mailto:craig.pullen@southandvale.gov.uk)

Cabinet member responsible: **Councillor Matthew Barber**

Telephone: **07816 481452**

E-mail: [matthew.barber@whitehorsedc.gov.uk](mailto:matthew.barber@whitehorsedc.gov.uk)

To: Audit and Governance Committee

DATE: 3 July 2014

## Internal audit annual report 2013/2014

### Recommendation

That members note the content of the report

### Purpose of Report

1. The purpose of this report is to report on the work of internal audit in the year ended 31 March 2014, and to advise the committee of the audit manager's opinion on the overall adequacy and effectiveness of the internal control environment.
2. The contact officer for this report is Craig Pullen, Interim Audit Manager for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823544 and (VWHDC) 01235 547615.

### Strategic Objectives

3. Managing our business effectively.

### Background

4. Standard 10 of the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (CIPFA Code) states that the head of internal audit (audit manager) must produce an annual report that:

- includes his or her opinion on the overall adequacy and effectiveness of the organisation's control environment;
  - discloses any qualifications to that opinion, together with the reason(s) for the qualification;
  - presents a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
  - draws attention to any issues the head of internal audit judges particularly relevant to the preparation of the Statement of Internal Control (now Annual Governance Statement);
  - compares the work actually undertaken to the work that was planned and summarises the performance of the internal audit function against its performance measures and targets; and
  - comments on compliance with the CIPFA standards and communicates the result of the internal audit quality assurance programme.
5. The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
- establishing and monitoring the achievement of the organisation's objectives;
  - ensuring compliance with established policies, procedures, laws and regulations;
  - ensuring risk management is embedded in the activity of the organisation, that leadership is given to the risk management process, and staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
  - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
  - the financial management of the organisation and the reporting of financial management; and
  - the performance management of the organisation and the reporting of performance management.

## Overall Opinion

6. The audit manager is satisfied that sufficient internal audit work has been undertaken to allow a reasonable conclusion to be drawn as to the adequacy and effectiveness of Vale of White Horse District Council's (VWHDC) risk management, control and governance processes. The audit manager's opinion is based on the risk-based audits carried out during the year and other unplanned work on control systems. No reliance has been placed on the work of other assurance bodies.
7. It is the audit manager's unqualified opinion that satisfactory assurance can be placed on the council's risk management, control and governance processes. There is basically a sound system of internal control but there are some weaknesses which may put some system objectives at risk.
8. Based on the scope of internal audit's reviews, nine areas were given full assurance which is an increase of two from 2012/2013. No significant improvements in specific audit areas was identified. Areas of weakness in the control environment have been identified and improvement actions agreed in the following areas: licensing and Wantage Civic Hall. Where internal audit identified weaknesses which require remedial action, recommendations have been made and discussed with officers.

9. Notwithstanding the audit manager's overall opinion, internal audit identified a number of opportunities for improving controls and procedures across the council which officers have generally responded to positively.
10. Throughout 2013/2014, the audit manager has reported on systemic control weaknesses to the audit and corporate governance committee. This system has now been replaced by a Schedule of Outstanding Recommendations, which will be presented to Committee for the first time at this meeting. Internal Audit will continue to monitor all outstanding recommendations and report to future Committee meetings.
11. A summary of all internal audit opinions for 2013/2014 is attached as **Appendix 1**.

## **Summary of Audit Work**

12. For 2013/2014, internal audit completed 538 audit work days. 264 days for South Oxfordshire District Council and 274 days for the Vale of White Horse District Council. This includes planned audit work, consultancy work and contingency work (i.e. investigations).
13. A total of 55 planned internal audit reviews have been undertaken with a total of 45 planned audits being completed within 2013/2014. A further 10 reports were in progress at year end, six of which have now been completed. From those 55, 27 relate to VWHDC. From the 25 completed audits, nine (36%) achieved a full assurance rating. In most cases (14 audits / 56%) a satisfactory assurance rating was achieved. Limited assurances were appropriate for two (8%) audits and no reviews resulted in nil assurance being given. In total 95 recommendations to improve controls and procedures within the council were made. Five (5.3%) were classified as high, 40 (42.1%) as medium and 50 (52.6%) as low. Of the completed audits three recommendations were not agreed by management.
14. Two investigations were commenced during 2013/2014 for the council, and these utilised 15 days. One joint consultancy review was completed during 2013/2014, and this utilised one day. No system development work was requested.
15. A total of 26 follow-up reviews were undertaken during 2013/2014, utilising 14 days. From those 26, 12 related to VWHDC. Time has been allocated within the 2014/2015 audit plan for further follow-up work.

## **Issues Relevant to the Annual Governance Statement**

16. Specific audit reviews on corporate governance, risk management and the council's anti-fraud and corruption policies were not included within the 2013/2014 annual audit plan. Internal audit has undertaken proactive anti fraud testing within 2013/2014 which raised no recommendations.
17. No suspicions of fraud and corruption by officers, members or partners/contractors were reported to the audit manager during 2013/2014. The audit manager has reviewed the 31 entries for 2013/2014 within the gifts and hospitality register for and has no concerns.

## Internal Audit's Performance

18. The internal audit team was below its full complement for 2013/2014 of an audit manager (0.6FTE) and three auditors shared across both sites. For the last six months, a contract auditor was used to provide an experienced resource following the resignation of one auditor.
19. The performance of internal audit is measured against a number of indicators. The out-turn for 2013/2014 is as follows:

	Year Ending 31/03/13	Target 13/14	Year Ending 31/03/14
<b>Chargeable</b> (identifiable client and/or specific IA deliverable)	71%	73%	74.5%
<b>Non-Chargeable</b> (corporate, not IA deliverable)	4.5%	8%	7%
<b>Lost</b> (i.e. leave, study, sickness)	24.5%	19%	18.5%

Performance Targets	Year Ending 31/03/14
<b>PT1</b> To issue 90% of audit notifications at least 1 month before start of audit fieldwork	96%
<b>PT2</b> To issue 90% of draft audit reports within 5 working days of completion of the exit meeting.	100%
<b>PT3</b> To issue 90% of final audit reports within 5 working days of receipt of the auditees final responses to draft report and recommendations.	100%
<b>PT4</b> To issue 90% of follow-up notifications at least 1 month before start of follow-up work.	90%
<b>PT5</b> To follow up 90% of final reports within 6 months of completion of audit.	78%
<b>PT6</b> To complete the audit fieldwork and issue draft reports on 100% of key financial system audits within the audit plan.	100%
<b>PT7</b> To complete the audit fieldwork and issue draft reports on 80% of all non key financial system audits within the audit plan.	89%

20. This year team performance has again achieved or exceeded all targets with the exception of PT5. As previously explained to Committee, follow-ups have been undertaken by the contract auditor and, due to the limited days available for each follow-up, it has been more cost effective to group these together, which has meant that the six month target has not always been achieved. The performance targets will remain at these levels in 2014/2015, due to a new auditor starting in June 2014 and potential changes to the methods of following up final reports.

## Compliance with CIPFA Code

21. As part of the quality assurance programme and to assist in monitoring and improving the quality and value of service provided, auditees are asked to complete an audit

feedback questionnaire on internal audit's performance. Response rates have increased from seven being returned in 2012/2013 to ten being returned during the course of 2013/2014. A summary of all the responses received and general comments is attached as **Appendix 2**.

22. All feedback received by the audit manager is discussed with the relevant auditor. Where appropriate, the audit manager meets the officer to discuss their comments in more detail and implement any necessary process improvements.

### **Financial Implications**

23. There are no financial implications attached to this report.

### **Legal Implications**

24. None

### **Risk Implications**

25. Identification of risk is an integral part of all audits.

CRAIG PULLEN  
INTERIM AUDIT MANAGER