

AUDIT AND GOVERNANCE COMMITTEE – 24 JUNE 2013

ANNUAL INTERNAL AUDIT REPORT 2012/13



Report of the Audit Manager – Shared Internal Audit Service

Ward(s) affected: All

1. **Purpose of Report**

- 1.1 To consider the key findings and conclusions from the work undertaken in 2012/13 and to give an opinion on the overall adequacy and effectiveness of Craven's internal controls.

2. **Recommendations**

- 2.1 Members are recommended to note the contents of the report and the attached Appendix A.

3. **Background**

- 3.1 2012/13 was the first year of the Shared Internal Audit Service collaboration with Harrogate Borough Council. The service is hosted by Harrogate and the agreement is that 250 audit days annually is provided to Craven. The Shared service is managed by a Partnership Board which consists of the two chief finance officers, or the two authorities. Currently, interim arrangements are in place at both authorities. Craven's representative on the Board is the Interim Finance Manager as the Corporate Head of Financial Management is on long-term sick leave. Harrogate's representative is its Head of Financial Management following the retirement of the previous postholder of the post of Director of Resources at the end of March.
- 3.2 Under the Code of Practice for Internal Audit in Local Government ruling for 2012/13, the Head of Internal Audit (or equivalent) is required to submit an annual report which should include an opinion on the overall adequacy and effectiveness of the organisation's internal controls, present a summary of the work undertaken to formulate that opinion and compare the work actually undertaken with the work that was planned.
- 3.3 The Council is responsible for ensuring it complies with the law and proper standards to carry out its business. As such, the Council is responsible for ensuring that a sound system of internal control is in place in order to achieve value for money in the use of its resources which includes

arrangements for managing risks.

- 3.4 Internal Audit is an assurance function that provides an independent and objective opinion to an organisation on the effectiveness of its internal controls in achieving its objectives. Internal Audit contributes to the proper economic, efficient and effective use of resources by reporting on the adequacy of controls (Code of Practice for Internal Audit in Local Government).
- 3.5 Internal Audit can provide reasonable assurance on the controls examined. This does not imply infallibility. Internal auditors cannot be expected to identify each control weakness or irregularity. Also, Internal Audit is not an extension or substitute of management. It is for management to accept Internal Audit findings and implement recommendations or to accept the risks from not taking action.
- 3.6 With effect from 1 April 2013, the Code was replaced by the new Public Sector Internal Audit Standards – or PSIA's for short. These were the subject of a report to the last meeting of the Committee on 18 March. The report considered the extent of compliance with the new Standards by the Harrogate and Craven Shared Internal Audit Service and put forward an Action Plan to address the few areas where improvements were considered necessary.

4. OVERALL OPINION

- 4.1 The opinion is derived from work on 2011/12 audits reported during the year and on 2012/13 audits completed at the time of writing. The audits were conducted according to professional standards from good practice contained within the Code of Practice and additionally from the Audit Section's own internal quality assurance arrangements. The external auditors, formerly the Audit Commission but now Mazars, have confirmed that these arrangements meet the standards set out in the Code.

The overall opinion is that for the systems and areas reviewed, significant progress is being made. In most of the areas reviewed, fundamentally sound systems of internal control are in place. In others, the Authority is moving in a positive direction. In determining its opinions, Internal Audit takes into account that in some areas, ideal internal controls cannot be put in place (e.g. on the segregation of duties) due to management decisions made on resource and capacity issues.

Where appropriate recommendations for further improvement and to address issues of non-compliance with key controls have been included in reports to senior management. In addition, reports also identify potential efficiency gains from changed arrangements or business processes – for example where duplication or over control may exist.

- 4.4 Internal Audit has had unrestricted access to all areas and systems across the Authority and has received appropriate cooperation from officers and Members.

5. AUDIT APPROACH

- 5.1 On reporting lines in the first half of the year, the Internal Audit service operated under the general direction of the Corporate Head of Financial Management. Latterly, Internal Audit liaised with the Interim Finance Manager in view of the absence of the Corporate Head on long term sick leave. Access to the Chief Executive in exceptional circumstances was available, if considered necessary. The Audit Manager and Principal Auditor held regular meetings with the Corporate Head and subsequently the Interim Finance Manager to review progress and consider draft reports. There were also discussions with Craven's ICT Manager to consider findings and agree recommendations concerning IT audits. In addition, the Audit Manager attended meetings of the Audit and Governance Committee to summarise progress and present individual audit reports.
- 5.2 In terms of process, a risk-based approach was used to identify and evaluate the application of financial and other management controls. This included getting out into the departments to talk to staff on the ground to balance a 'desk-top' approach.
- 5.3 The level and mix of staff for each audit was determined by the knowledge and experience of the Auditors in the Team relative to the complexity of each assignment. Specialist auditors, for example, on computers and procurement/contracts, were allocated assignments as appropriate.
- 5.4 During the year, Internal Audit has liaised with the Authority's external auditors, formerly the Audit Commission but now Mazars. The objective was to maximise the benefit to Authority from all audit work to avoid duplication of coverage and to learn from each other's findings to provide maximum assurance.
- 5.5 The achievement of audit plans depends upon the contribution of the Council's staff. Internal Audit would like to record its appreciation for the involvement and commitment of staff and for their critical appraisal of conclusions drawn and recommendations made.

6. AUDIT PERFORMANCE AND KEY FINDINGS

- 6.1 The Appendix attached to the report compares the Plan for 2012/13 to the actual time spent on each audit as at 31 March 2013.
- 6.2 The Plan provided for 250 days. As at 31 March 2013, a total of 278 days had been spent. There were three main reasons for the increase.
- 6.3 The first reason relates to the audits brought forward from 2011/12 – in particular the annual audits of the major financial systems. In part, this is a phasing issue. These audits are planned to start in Quarter 4 of each financial year, so that transactions from as much of the year as possible can be in the testing. This effectively means that the audit continues into the following year. The actual days spent shown in the Appendix is the total time

for the respective audits during the year – both on completing the 2011/12 audits where appropriate and work on the 2012/13 reviews.

- 6.4 The second reason relates to completing the work on the Fixed Assets Review. This started in 2011/12, the objective being to ensure that the Council complied with the requirements of the International Financial Reporting Standards (IFRS) and in particular, concerning the figures for valuation of assets in the Council's accounts. This required a thorough review of the information held on the assets register to ensure that it was accurate. In addition, audit support was required to ensure that the figures had been loaded correctly onto the system and that it was working as expected. The time spent in 2012/13 has been charged against the Contingency provision, but Members will see from the Appendix that this was overspent.
- 6.5 Thirdly, time spent on the Craven Pool audit was greater than originally planned. (Actual 25 days, Plan - 10 days). Originally, this audit was to review cashing-up procedures in order to understand why cash discrepancies were occurring between the till and banking records. Following the review by Audit management, it was agreed that the original scope should be extended to also include Sportsoft (the system used to manage operations at the Pool e.g. the till, memberships), membership issues, the on-line booking service and signage to the site. This has resulted in a much more comprehensive report which considers the major risks at the Pool and makes recommendations to mitigate these. The draft report was submitted to Craven in early June for consultation and comments by relevant officers. As this is now a major report, it is unlikely that the final version will be available in time to meet the circulation deadline for the Committee meeting. A progress report will, therefore, be given at the meeting itself.
- 6.6 There was a staff vacancy in the Audit Team for April-June 2012 inclusive, due to the previous postholder leaving the employment of Harrogate Borough Council. The vacancy was filled by a secondment from Harrogate's Accountancy Section with effect from July. The secondment was made a permanent transfer from April 2013.
- 6.7 The Appendix also sets out the position for each audit at the time of writing. Where appropriate, it identifies the opinion levels for the 2011/12 audits where such reports were made during 2012/13. The Appendix also comments on the position for the 2012/13 audits. In summary, the position at the time of writing was:

	No. of Audits / Reviews
Total referred to In appendix	22
Less:	
2012/13 audits – ongoing	4*
Audit covered by External Audit (Accounting System)	1

'Consultancy' work (fixed asset review, car parking)	2
Draft report stage – opinion needs to be considered	2
(Craven Pool, Data handling- Members)	
Audits where opinion given (either draft or final report)	13
(* Belle Vue Service Charge, Members Expenses, Treasury Management, IT Service Desk)	
'Opinion' Levels – agreed/proposed	
Significant	3
Good	7
Partial	3
None	--
	13

- 6.8 This shows that of the 22 audits/reviews referred to in the Appendix, 17 (77%) had at least reached draft report stage. Of the remaining 5, 4 audits/reviews are ongoing and 1 area is being covered by the original auditors – Mazars. Also, where audit opinions on the level of assurance have been provided, 77% (10 out of 13) were either significant or good.
- 6.9 The agreed protocol is that the full audit reports, when finalised and including management comments, for those areas receiving a “partial” or “none” assurance level are submitted to the Audit and Governance Committee. It has become the custom and practice for all audit reports to be submitted to the Committee so that Members receive a comprehensive and balanced picture – covering both those areas where the Authority is performing relatively well and those where major improvements need to be made. The outstanding reports will be submitted to Members in due course.
- 6.10 The contribution made by Craven to Harrogate during 2012/13 for the provision of the Shared Service was approximately £66,000. This was composed of three elements:- the agreed contribution for the annual provision of 250 audit days (£225 per day); an additional amount in respect of the days worked on the fixed assets review (£9,000) and a contribution for cost of legal advice in respect of setting up the Partnership (approximately £1,000).
- 6.11 Towards the end of the year, Internal Audit was the subject of a Value For Money (VFM) review as part of Harrogate Borough Council's overall programme of such reviews. As Internal Audit is a Shared Service with Craven District Council, the VFM Review Team sought the views of Craven on the efficiency and effectiveness of Internal Audit. At the time of writing, a draft report has been produced and, the findings, conclusions and recommendations will be reported in due course.

7. **Implications**

7.1 **Financial and Value for Money Implications** – None

7.2 **Legal implications** – None

7.3 **Contribution to Council Priorities**

The delivery of an Internal Audit Service contributes to Council transformation.

7.4 **Risk Management**

The internal audit function is an integral part of internal control.

7.5 **Equality Impact Assessment**

The Council's Equality Impact Assessment Procedure **has been** followed. An Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

8. **Consultations with Others**

Interim Finance Manager and Deputy S151 Officer.

9. **Access to Information : Background Documents**

None

10. **Author of the Report**

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Note: Members are invited to contact the author in advance of the meeting with any detailed queries of questions.

11. **Appendices**

Appendix A – Internal Audit Plan 2012/13 Outturn Statement..

**INTERNAL AUDIT 2012/13
OUTTURN STATEMENT**

Audit	Approved Plan (Days)	Actual April – March (Days)	Comments (as at 7 June 2013)
<u>Annual Audits</u> (includes 2011/12 audits brought forward and 2012/13 audits)			
Benefits	20	11	2011/12 – Reported to Audit and Governance September 2012. “Significant” assurance. 2012/13. Draft report. ‘Significant’ assurance. Applications, assessments and review of benefits are well managed. No recommendations
Procurement/Contracts	20	16	Completed. Reported to Audit and Governance in January 2013. Compliance with Contract Procedures “Significant”, Creditor Spending Analysis “Good”.
Treasury management	5	3	Ongoing.
Council Tax/Business Rates	30	49	2011/12 Reported to Audit and Governance in September 2012. “Good” assurance. 2012/13 – Draft report stage “Good” assurance although majority of recommendations from 2011/12 not yet implemented.
Accounting System	10	--	Covered by Mazars as part of their final accounts audit work. Therefore Internal Audit not being done.

Audit	Approved Plan (Days)	Actual April – March (Days)	Comments (as at 7 June 2013)
Payroll	15	15	2011/12. Reported to Audit and Governance in September 2012. “Good” assurance. 2012/13. Two reports – Payroll Section final report “Good”, HR draft report “Partial”. Main issues related to honoraria payments including their authorisation and review.
Debtors	10	24	2011/12. Reported to Audit and Governance in June 2012. “Good” level of assurance. 2012/13. Draft report stage – “Good” level of assurance although limited progress on implementing debt recovery recommendations.
Creditors	20	32	Completed. Audit covered 2011/12 and 2012/13. Reported to Audit and Governance in December 2012 “Partial” assurance but is moving towards “good”. Main issue was on the segregation of duties between the input of supplier details on the system and involvement in payment runs.
	130	150	
<u>IT</u> Security/Data Handling – Members	20	15	Draft report stage. Subject to management review.

Audit	Approved Plan (Days)	Actual April – March (Days)	Comments (as at 7 June 2013)
Service Desk	5	10	Ongoing. Report being drafted.
2011/12 carryover (Security/Data Handling – Officers and IS Procurement)	--	3	Implementation of recommendations subject to review following specific request by Audit and Governance on progress made. Both audits were “partial” assurance. Reported to Audit and Governance in April 2013.
	25	28	
<u>Risk Assessed Systems/Contingency</u> Craven Pool. Car Parking Income Belle Vue Square – Service Charge	10	25	Original purpose was to review cashing-up procedures. A draft report was produced in March. Following Audit Management Review the scope was extended to also include Sportsoft, membership issues, on-line booking and site signage. Result is a more strategic review. Significantly more comprehensive draft report now issued for CDC consultation and comments. Completed. Reported to Audit and Governance in January 2013. Review now commenced. Delay due to timing of financial year end of landlord/developer.

Audit	Approved Plan (Days)	Actual April – March (Days)	Comments (as at 7 June 2013)	
Member Expenses	5	--	Review now commenced. “Light touch” review as requested by Audit and Governance Committee.	
Contingency – Fixed Assets Review	35	42	Completed. Involved re-analysing asset valuation figures for several years to ensure that opening balances for 2012/13 were correct for loading onto the new Agresso module.	
	70	81		
<u>Other Audit Work</u>	Planning/Management	20		
	Audit Committee Papers	5		11
	25	8		19
	250	278		TOTAL