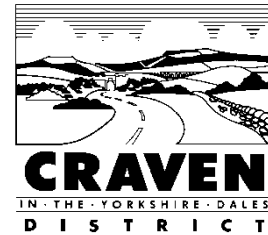


## **Audit and Governance Committee**

### **23 June 2014**



## **ANNUAL INTERNAL AUDIT REPORT**

### **2013/14**

#### **Report of the Audit Manager – Shared Internal Audit Service**

#### **Wards Affected – All**

### **1.0 PURPOSE OF REPORT**

- 1.1 To consider the key findings and conclusions from audit work undertaken in 2013/14 and to give an opinion on the overall adequacy and effectiveness of the Council's arrangements for risk management and governance and on its internal controls.

### **2.0 RECOMMENDATION**

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

### **3.0 BACKGROUND**

- 3.1 2013/14 was the second year of the Shared internal Audit Service collaboration arrangement with Harrogate Borough Council. The service is hosted by Harrogate and the agreement is that 250 days annually is provided to Craven. The Shared Service is managed by a Partnership Board which consists of the Chief Finance Officers of the two authorities. Unless it is extended, the collaboration arrangement will finish with effect from 31 March 2015.
- 3.2 Under the Public Sector Internal Audit Standards (PSIAS) the "chief audit executive" or equivalent is required to submit an annual report which should include an overall opinion on the adequacy and effectiveness of the organisation's risk management and governance arrangements and on its internal controls. In addition, the report should include a summary of audit work actually undertaken compared to work that was planned, comment on the performance of internal audit and on compliance with the PSIAS.
- 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 effective risk management and governance arrangements and

internal controls are in place in order to deliver value for money in the use of its resources and to achieve its corporate and service objectives.

3.4 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (Public Sector Internal Audit Standards).

3.5 Internal audit can provide reasonable assurance on the arrangements and controls examined. This does not imply infallibility. Internal auditors cannot be expected to identify each weakness or irregularity. Also, internal audit is not an extension or substitute for management. It is for management to accept internal audit findings and implement recommendations or to accept the risks of not taking action.

#### **4.0 AUDIT APPROACH**

4.1 On reporting lines, the Internal Audit Service operated under the general direction of the Corporate Head of Financial Management/S151 officer or the Interim Finance Manager/Deputy S151 officer in her absence. The Audit Manager and Principal Auditor also held meetings with the Chief Executive.

4.2 The Audit Manager attended meetings of the Audit and Governance Committee to summarise progress and present individual audit reports. Together with the Principal Auditor, he also held meetings with the Chair of the Committee.

4.3 On individual assignments, Internal Audit liaised with the relevant managers to agree the programme of work, kept them informed of progress during the course of the audit in question and subsequently discussed findings and agreed recommendations.

4.4 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 grounds to balance a 'desk-top' approach.

4.5 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.

4.6 During the year, Internal Audit liaised with the Authority's external auditors, Mazars LLP. The objective was to maximise the benefit to the Authority from all audit work to avoid duplication of coverage and to learn from each other's findings to provide maximum assurance.

4.7 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.

## 5.0 SUMMARY OF AUDIT FINDINGS

5.1 The Appendix attached to the report sets out the opinion levels for those 2012/13 audits where such reports were made during 2013/14. The Appendix also comments on the position for the 2013/14 audits at the time of writing. In summary, the position is:-

	No of Audits/ Reviews
Total referred to in Appendix	25
<u>Less</u>	
2013/14 audits on-going (Creditors Mechanics Workshop)	2
"Consultancy" work (Belle Vue Service Charge)	1
Draft report stage – subject to consideration (Data Protection, PCI Data Standards)	2
Deferred to 2014/15 (Museum/Gallery/TIC, Car Parking – Civil Enforcement)	2
Audits where opinion given	18
Analysed as:-	
Significant	6
Good	7
Partial	4
No	1

5.2 This shows that of the 25 audits/reviews referred to in the Appendix, 21 (84%) have at least reached the draft report stage or equivalent. Of the remaining 4, 2 audits are ongoing (Creditors, Mechanics Workshop), 1 was put on hold pending a review by the Select Committee (Car Parking – Civil Enforcement)

and 1 has had to be deferred to 2014/15 due to other priorities. (Museum, Art Gallery, TIC).

- 5.3 Where audit opinions on the level of assurance have been provided, 73% (13 out of 18) were either “significant” or “good”. This is broadly similar to the position reported in the 2012/13 Annual Report. On the annual audits of the major financial systems, it is pleasing to note that there has been further improvements in some areas – for example in Debtors and Payroll where the level of assurance is now moving towards or at “significant” whereas previously they were “good” or even “partial”.
- 5.4 Of the risk assessed systems, 3 of the reported 5 opinion levels were either “good” or “significant”. The two audits with “partial” levels of assurance were Members expenses and Craven Pool. Members requested that Internal Audit reported back on the progress made in implementing the recommendations on both these areas which were made in March. These showed that in respect of Craven Pool, all the recommendations had been implemented and that progress was being made regarding Members expenses.
- 5.5 On IS, the position on the audits started in 2012/13 was mixed. The level of assurance given on the Service Desk audit was “good” and there was evidence of improvements being made. However, on the Data Handling (Members) audit, Internal Audit were unable to give any assurance that adequate and effective arrangements were in place.

Both the 2013/14 audits have reached the draft report stage. Senior Management has requested further work on both of these which is ongoing at the time of writing. A verbal update will be given at the meeting if sufficient progress has been made in the meantime.

- 5.6 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 the 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.

## **6.0 AUDIT DAYS PROVIDED**

- 6.1 The Appendix also compares the time allocations for the various audits/reviews included in the Approved Plan for the year to the actual time spent from April 2013 to March 2014 inclusive. The Plan provided for

250 days according to the Shared Service Agreement. Actual time recorded against the various audits/reviews amounted to 317 days.

## 6.2 Reasons for the increase include:-

- time spent on audits brought forward from 2012/13 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 included in the testing. This means that such audits typically carry over from one financial year to the next.
- on the “Risk Assessed Systems:-
  - work was required to report back on the implementation of recommendations at Craven Pool and on Members expenses as requested by the Committee.
  - the inclusion of a Strategic Review on Trade Waste.
  - additional work was required on the Trade Waste (Processes and Procedures) audit between draft and final report stages.
- on IS, in hindsight the allocated time was underestimated to review the relatively high risk and complex areas involved.

6.3 At the time of writing, further work to analyse the reasons for the increase in time spent over the planned 250 days is being undertaken in order to consider how this can be accommodated within the Shared Service.

## 7.0 QUALITY ASSURANCE AND IMPROVEMENT

7.1 Under the PSIAS, the “chief audit executive” must develop a quality assurance and improvement programme (QUAIP). The objectives are to assess the efficiency and effectiveness of internal audit activity, identify opportunities for improvement and to evaluate whether or not the Standards are being met.

7.2 The QUAIP consists of:-

- ongoing monitoring of the performance of internal audit
- periodic self-assessments

- an external assessment which must be undertaken at least once in every 5 years

### 7.3 Ongoing Monitoring

7.3.1 There are management and supervision arrangements within Internal Audit in order to ensure that each audit assignment meets the required quality standards. These involve discussions between Audit Management and the individual Auditor concerned during the planning of the audit to ensure that key risks are covered, during fieldwork and at draft and final report stages. The purpose is to ensure that the engagement, evidence and reporting requirements set out in the PSIAS are met, together with the Code of Ethics. (Integrity, Objectivity, Confidentiality, Competency).

7.3.2 Following each applicable audit, Internal Audit send out a post audit questionnaire (PAQ) to the relevant Client Manager for feedback on the quality of the audit from the client perspective and on whether any improvements could be made. The PAQ asks 9 questions and provides for responses ranging from “very satisfied” to “very dissatisfied”. The latest results are summarised in the separate report attached to the agenda on the Annual Review of Effectiveness. This shows that the feedback is very positive – with all responses being either very satisfied or satisfied.

7.3.3 Internal Audit Management also seeks informal feedback from senior management, including corporate management teams and Members.

7.3.4 Internal Audit also has various performance indicators which are monitored during the year. These include:-

Productivity - Measured by chargeable time as a proportion of time in the office. Actual Performance for 2013/14 was 79% compared to a target of 83%. Additional time was required for the corporate initiatives of Harrogate.

Sickness Monitoring - The total level of sickness for the 7 members of the Team was only 3 days – well below average

Budget - Actual expenditure was within budget for the year

### 7.4 Self Assessments

7.4.1 At the meeting of the Audit and Governance Committee on 18 March 2013, I submitted a Briefing Note on the PSIAS, together with an assessment of the

extent of compliance. The overall conclusion was that Internal Audit met approximately 90% of the standards. Progress on implementing the actions identified to improve the level of compliance was reported to the Committee in January 2014.

## 7.5 External Assessment

7.5.1 In January 2014, the Committee approved the appointment of Mazars LLP, the Council's external auditors, to undertake an external assessment of Internal Audit. This was completed during April.

7.5.2 The overall conclusion was that Internal Audit is "substantially compliant" with the PSIAS. The report identified one significant weakness where Internal Audit and the Council did not comply with the PSIAS (specifically on the annual review of effectiveness of Internal Audit) and also number of improvement actions. (Please refer to the separate item on the agenda).

7.5.3 The Action Plan is on target. I can confirm that all the actions with a timescale of May or June 2014 have been met.

## 8.0 COMPLIANCE WITH THE PSIAS

8.1 As noted above, the overall conclusion from the external assessment is that Internal Audit is substantially compliant with the PSIAS.

8.2 Members are referred to the separate report attached to the agenda which sets out those areas where compliance needs to be improved.

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

## 9.0 AUDIT OPINION

9.1 Under the PSIAS, I am required to give an overall opinion on the adequacy and effectiveness of the Council's risk management and governance arrangements and on its internal controls.

9.2 The overall opinion is that:-

**Risk Management:** The Council has adequate and effective arrangements in place with risk management being embedded within the Authority. This is based on Internal Audit's experience and observation of proceedings at the Risk Management Group – together with a review of the Risk Management Strategy and risk registers (both corporate and specific (eg Skipton

Developments, Tour de France). There is also robust challenge by Members when risk registers are submitted to the Audit and Governance Committee for consideration and approval.

**Governance:** This concerns the combination of protocols, procedures and structures in place to inform, direct, manage and monitor activities towards the achievement of the Council's objectives. The opinion is that generally speaking, adequate and effective arrangements are in place. The Annual Governance Statement sets out those arrangements and I can confirm that these are comprehensive.

During 2013/14, Internal Audit reviewed the Council's Anti-Fraud and Corruption Strategy (including the Whistleblowing Policy and Anti-Money Laundering Arrangements), Contract Management and the ICT Service Desk. The opinions given were either significant or good levels of assurance that effective arrangements are in place.

An area of concern is the Council's arrangements for information governance (data protection and security). The outcome of the audit of Data Handling (Members) reported in September was that 'No' assurance could be given that adequate and effective arrangements were in place. This echoed the opinion given for the companion report for employees reported in 2012 where the opinion level was "partial". Progress is being made on the implementation of the recommendations – although in some respects the agreed implementation dates have not been met.

**Internal Control:** Generally, fundamentally sound systems of internal control are in place. Over 70% of the opinions issued were either "significant" or "good" (refer to paragraph 5.1). In other areas, progress continues to be made. In determining its opinions, Internal Audit takes into account that in some areas, ideal internal controls cannot be put in place (eg on the segregation of duties) due to management decisions made on resource and capacity issues.

This opinion aligns with that of the external auditors, Mazars LLP. In the Completion Report covering the audit of the 2012/13 accounts which was reported in October, Mazars did not identify any significant deficiencies in internal control.

## 10.0 IMPLICATIONS

- 10.1 Financial and value for money. The contribution paid by Craven towards the cost of the Shared Service for 2013/14 was £56,813. The reasons for the additional days required to undertake the audits are currently being analysed



and depending on the findings, there may be a requirement for the Council to pay an additional amount to Harrogate based on the daily rate of £227.25.

- 10.2 Legal. This report is submitted to comply with the requirements of the Public Sector Internal Audit Standards.
- 10.3 Contribution to Council priorities – Council transformation.
- 10.4 Risk Management – the internal audit function is an integral part of internal control.
- 10.3 Equality/Impact Assessment – not applicable.

## **11.0 CONSULTATION WITH OTHERS**

- 11.1 Finance Manager/Deputy S151 Officer (in absence of Corporate Head of Financial Management and S151 Officer), other members of the Corporate Leadership Team.

## **12.0 ACCESS TO INFORMATION BACKGROUND DOCUMENTS**

- 12.1 None.

## **13.0 AUTHOR OF REPORT**

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**Note: Members are invited to contact the author in advance of the meeting with any**

**CRAVEN DISTRICT COUNCIL  
INTERNAL AUDIT 2013/14**

Annual Audits		Approved Plan	Actual Apr-Mar	Comments (as at 6 June 2014)
Benefits	20/12/13 b/fd 2013/14	5 30	19 22	Reported June 2013. "Significant". To be reported June 2014 (see separate agenda item). "Significant".
Procurement	(Contracts)	10	11	Contract Management reported in Jan 2014. "Significant".
Treasury Management	2012/13 b/fd and 2013/14	3 5	- 6	To be reported June 2014 (see separate agenda item). "Partial".
Council Tax/ NDR	2012/13 b/fd 2013/14	5 20	19 16	Reported in June 2013. "Good". To be reported June 2014. (See separate agenda item). "Good".
Payroll	2012/13 b/fd	2	17	Reported June 2013. Finance "Good". HR "Partial".
	2013/14	15	10	To be reported June 2014. (See separate item on agenda). "Significant".
Debtors	2012/13 b/fd 2013/14	5 10	2 11	Reported June 2013. "Good". To be reported June 2014 (see separate agenda item). "Good – moving towards significant"

Version No	<b>AGENDA ITEM 6c</b>
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Creditors	2013/14	10	8	Audit in progress.
		120	141	
<b>Risk Assessed Systems</b>		<b>Approved Plan</b>	<b>Actual Apr-Mar</b>	<b>Comments (as at 6 June 2014)</b>
BVS Service Charge		15	7	Completed. Reported Sep 2013.
Members Expenses		5	9	Completed. Reported Jan 2014 "Partial". Report back in March 2014 on progress on implementing recommendations.
Trade Waste – (Processes and Procedures)		15	24	Completed. Reported March 2014. "Good".
Trade Waste – Strategic Review		-	11	Completed. Reported March 2014. "Good". Report with Corporate Leadership Team.
Mechanics Workshop		15	18	Audit in progress. Carried forward to 2014/15.
Car Parking – Civil Enforcement		10	-	Audit deferred as Select Committee to undertake review (A&G decision Nov 2013).
Anti-Fraud Strategy		10	8	Completed. Reported Jan 2014. "Significant"
Craven Pool – 2012/13 c/fd		5	12	Completed. Reported Sep 2013 "Partial". Update on implementation of recommendations reported March 2014.
Museum/Gallery and TIC (Town Hall processes and procedures)		-	-	Additional audit approved by A&G Nov 2013. Deferred to 2014/15 due to other priorities.

Version No

# AGENDA ITEM 6c

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Version No

**AGENDA ITEM 6c**

<b>IS</b>	<b>Approved Plan</b>	<b>Actual Apr-Mar</b>	<b>Comments (as at 6 June 2014)</b>
Overall Provision	25		
Completing 2012/13 Audits		2	Completed. Reported in Sep 2013. "No".
Data Handling (Members)		9	Completed. Reported in Sep 2013. "Good".
Service Desk			
2013/14 Audits			
Data Protection		24	Draft Report stage. Carried forward to 2014/15. Senior Management requested further work.
Payment Card Industry			
Data Standards		18	Draft report stage. Carried forward to 2014/15. Senior Management requested further work.
	25	53	
<u>Contingency</u>	11	2	Reallocated to Audits

Version No

**AGENDA ITEM 6c**

<b>Other Work</b>	<b>Approved Plan</b>	<b>Actual Apr-Mar</b>	<b>Comments (as at 6 June 2014)</b>
Planning/Management	14	24	Time spent by Audit Manager and Principal Auditor on audit planning and reviewing annual reports.  Time spent on producing Committee reports and attendance at meetings.
Audit Committee Papers	5	8	
	19	32	
<b><u>TOTAL</u></b>	250	317	