

Item No: 10 **Report No:** 107/13

Report Title: Annual Report on Internal Audit Performance and Effectiveness 2012/13

Report To: Audit and Standards Committee **Date:** 24 June 2013

Ward(s) Affected: All

Report By: Head of Audit and Performance

Contact Officer
Name: David Heath
Post Title: Head of Audit and Performance
E-mail: David.Heath@lewes.gov.uk
Tel no: 01273 484157

Purpose of Report:

To inform Councillors of the Internal Audit work of the Audit and Performance Division for 2012/13.

To inform Councillors on the outcome of the review of the effectiveness of Internal Audit for 2012/13.

Officers Recommendation(s):

- 1** To note that the Internal Audit coverage in 2012/13 has been sufficient to enable the Head of Audit and Performance to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment (see Section 3.1).
 - 2** To note the satisfactory outcome of the review of the effectiveness of Internal Audit for 2012/13 (see Section 3.3).
-

Reasons for Recommendations

- 1** The remit of the Audit and Standards Committee includes a duty to consider the annual report by the Head of Audit and Performance, and to keep the work of Internal Audit under review to ensure that it is able to discharge its functions effectively.
- 2 Background**
 - 2.1** The Internal Audit function at Lewes operates in accordance with the auditing guidelines published as a Code of Practice for Internal Audit by the Chartered Institute of Public Finance and Accountancy (CIPFA).
 - 2.2** CIPFA has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a revised common set of Public

Sector Internal Audit Standards (PSIAS) that will apply from 1 April 2013. The application of new standards in LDC was approved at the March 2013 meeting of the Audit and Standards Committee. The standards are now in force and will govern the operation of Internal Audit for 2013/14 and thereafter. The work of Internal Audit in 2012/13 was under the auspices of the previous CIPFA Code of Practice, and is being assessed against the previous standards.

- 2.3** The requirements of the previous CIPFA Code of Practice overlap with those of the Accounts and Audit Regulations, which require that there be an annual report on the effectiveness of Internal Audit. This requirement has been met by an internal study carried out by the Head of Audit and Performance, with the results independently reviewed by the Director of Finance and now reported to the Audit and Standards Committee. The review has drawn on the results of quality review processes that were approved by the Audit Committee in March 2007 and existing performance information.

3 Overall conclusions on Internal Audit Performance and Effectiveness 2012/13

- 3.1** The work carried out by Internal Audit during 2012/13 is outlined in Section 4 of this report. The audit coverage has been sufficient to enable the Head of Audit and Performance to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment. This opinion is included in the Annual Report on the Council's Systems of Internal Control 2012/13 that is presented separately to this meeting of the Committee.
- 3.2** In the past year Internal Audit has continued to focus on the Council's main financial systems and subsidy grant claims. This approach helps to ensure the adequacy of internal control in key areas, safeguards the Council's subsidy payments and supports the Council's external auditor, BDO (formerly PKF). The Head of Audit and Performance believes that these are necessary priorities, which have had no adverse effect on the Council's management and control of risk.
- 3.3** The review of the effectiveness of Internal Audit has taken into account the work carried out by the section during 2012/13 and the results of the performance and quality assurance processes that are outlined in Sections 5 to 10 of this report. The results of the review enable the Director of Finance to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight and has complied with the CIPFA Code of Practice 2006 and the Accounts and Audit Regulations 2011.

4 Work of Internal Audit 2012/13

- 4.1** This section of the report informs Councillors of the work undertaken by Internal Audit during the year, compared against the annual programme that was agreed by the Audit and Standards Committee in March 2012.

Use of Internal Audit resources

- 4.2** Table 1 shows the total planned audit days compared to the actual audit days spent. As requested by Councillors, Table 1 includes comparative data for 2011/12.

- 4.3** Table 1 shows that for 2012/13 a total of 729 audit days have been undertaken compared to the budget of 751 days. The variance of 22 days (2.9%) was mainly due to the time spent in getting ready for Agile Working and the move to Southover House on 22 March 2013. This involved planning, preparation, records management and packing, together with a series of workshops and training sessions to prepare staff and managers for the new environment. The full extent of this work was not recognised when the plan was set in March 2012.

Table 1: Plan audit days compared to actual audit days for 2012/13

Audit Area	Actual audit days for 2011/12	Plan audit days for 2012/13	Actual audit days for 2012/13
Main Systems	268	215	289
Central Systems	122	85	54
Departmental Systems	69	145	128
Performance and Management Scrutiny	39	71	68
Computer Audit	57	70	20
Environmental Audit	61	36	42
Management Responsibilities/Unplanned Audits	169	129	128
Days Total	785	751	729

- 4.4** Extra time was needed for Main Systems because of the additional work that has been required for the high priority audits with BDO on the main financial systems and the subsidy grant claims (see 4.7 to 4.8). The additional time for Environmental Audit is mainly due to work carried over from 2011/12, and the need for more detailed examinations in the audits comprising this year's programme.
- 4.5** The extra time required for audits of Main Systems and Environmental Audit meant that it was necessary to adjust the programme of audits in other areas. Four audits that were underway in March 2013 are being completed in 2013/14.

Audit Work Undertaken

- 4.6** The paragraphs below summarise the main functional areas reviewed in the year and the key audits undertaken and completed. More detailed information on the audits completed in 2012/13 has been provided to each meeting of the Audit and Standards Committee.
- 4.7** *Main Systems:* The initial work in April 2012 was on completing the testing of the major financial systems in order to gain assurance on the adequacy of internal controls for the Annual Governance Statement (AGS) and to inform the work of the external auditor BDO on the Council's accounts for 2011/12. A summary report was finally issued. From January 2013 the focus has been on the corresponding work with BDO for the 2012/13 financial year, and a summary report has been finally issued.
- 4.8** The major work on behalf of BDO to test the Council's subsidy claims for Benefits and NDR for 2011/12 was completed by the due date, and was signed off by BDO in November 2012. This work involved additional testing at the request of BDO, and this additional testing noted errors in the way that

applicants' payslip information has been assessed. The result was that BDO issued a letter of qualification. A summary report on the subsidy claim work was finally issued.

- 4.9** *Central Systems:* Final reports have been issued for the audits of Business Continuity Planning, Land Charges, Partnerships, the Newhaven Enterprise Centre and Insurance.
- 4.10** *Departmental Systems:* Final reports were issued for the audits of Contaminated Land and Air Quality, Environmental Health, Licensing, Waste and Recycling, and the Planning User Group. This latter report was an initial output from the main audit of Planning and Development Control which is underway, as are audits of Cemeteries, Housing Management and Economic Development.
- 4.11** *Performance and Management Scrutiny:* The initial work was a review of the organisation of corporate property management on behalf of the Chief Executive, the result of which was an options paper to the Corporate Management Team (CMT), and a review of the Annual Governance Statement (AGS) for 2011/12.
- 4.12** The involvement of Internal Audit in the Agile Working project, and the resources required for this work, were far more than originally planned. For example, Internal Audit is represented on the Management Board for the project to advise on internal control and quality assurance. In addition, Internal Audit has provided advice on aspects of the IT and Records Management work streams, has worked with officers in Finance on proposals for the re-design of the procedures for receiving income, processing invoices and managing accounts journal entries, and has reviewed the proposed arrangements for new 'paperlite' recording systems for Disabled Facilities Grants (DFG) cases in Environmental Health. From February 2013, Internal Audit has been represented on the Management Board for the Food Waste project to advise on quality assurance.
- 4.13** *Computer Audit:* Internal Audit completed the IT aspects of the testing of the main financial systems on behalf of BDO. A final report was issued for the audit of IT Change Control, an assignment which was managed to limit any disruption to the essential work of the IT Section on the Agile Working project. Audits of Internet/Intranet and Networks were moved to later in the audit cycle, as shown in the Strategic Audit Plan 2013/16 that was presented to the March 2013 meeting of this Committee. Three unplanned audits on IT issues are summarised at 4.18 and 4.19.
- 4.14** *Environmental Audit:* During June 2012, Internal Audit examined the Council's annual EMAS statement prior to its submission to Lloyd's Register Quality Assurance (LRQA) verifier. The verifier's assessment of the statement and Internal Audit's coverage of EMAS during 2011/12 informed the LRQA decision to confirm the Council's registration for the period up to May 2014. The standard follow up visit by a LRQA verifier took place in January 2013; the result was a positive outcome with no significant issues raised.

- 4.15** Earlier, a final report was issued for the last audit from the 2011/12 programme. Reports for the audits of EMAS: Biodiversity, EMAS: Procurement and EMAS: Waste and Recycling from the 2012/13 programme have been finally issued.
- 4.16** *Management Responsibilities and Unplanned Audits:* This category provides resources for the support for the Audit and Standards Committee, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.17** Internal Audit has been coordinating the Council's work for the 2012/13 NFI data matching exercise which is run by the Audit Commission. The base data was forwarded to the Audit Commission in October 2012, and the results were returned to the Council in February 2013 for the investigation of reported matches. This investigation work is underway.
- 4.18** Final reports were issued for the audit of the controls over changes to suppliers' payment details, which was requested by the Chair of the Audit and Standards Committee, for the investigations into a reported cash loss at the Fort Road and a potential conflict of interest for a member of staff. A final report has been issued for unplanned work on a review of email monitoring that was carried out at the request of the Director of Finance.
- 4.19** A review of proposals to make the interfaces between key systems more efficient and an examination of the links between the Council and the Bank Automated Clearing System (BACS) are both at the draft report stage. Although IT managers are focused on supporting the Nexus programme the Director of Finance has requested them and the Head of Revenues to improve arrangements. So far as can be determined there is no immediate risk to the Council from this situation.

Follow Up of Audit Recommendations

- 4.20** As part of the control procedures detailed in the Internal Audit Manual all audit recommendations are followed up. The purpose of this is to check whether all accepted recommendations have been implemented.
- 4.21** The early focus for follow up in 2012/13 was on confirming the implementation of the recommendations that had been agreed in the previous year. The results of this work were reported to the September 2012 meeting of this Committee. Since then the follow up procedures have concentrated on the recommendations due to be actioned during 2012/13.
- 4.22** The majority of recommendations (16/21) have been implemented, but this represents an implementation rate of 76% which is lower than the target of 90%. The factors behind the shortfall are organisational and staffing changes in departments, which have required a focus on other priorities. Internal Audit has confirmed that there are no outstanding issues that may have created significant risks. The results of the follow up are included in the Performance Indicators given at Section 9 and Appendix A.

5 Review of the Internal Audit Terms of Reference

- 5.1** The CIPFA Code of Practice (2006) requires that the Internal Audit Terms of Reference be approved and regularly reviewed by the authority. At Lewes the Internal Audit Terms of Reference are included in the Charter for Internal Audit that is approved by the Audit and Standards Committee.
- 5.2** The major work in this area during 2012/13 has been to update the Charter for Internal Audit and the Code of Ethics to comply with the Public Sector Internal Audit Standards (PSIAS) that came into force on 1 April 2013. The Audit and Standards Committee approved the Charter for Internal Audit at its March 2013 meeting.
- 5.3** The Head of Audit and Performance can confirm that, for the majority of 2012/13, the Internal Audit Terms of Reference were in accordance with the CIPFA Code of Practice 2006 and the Accounts and Audit Regulations 2011. Since March 2013, the Internal Audit Terms of Reference have been in accordance with the PSIAS.

6 Review of the Internal Audit Service against its aims, strategy and objectives

- 6.1** The CIPFA Code of Practice (2006) requires that the Internal Audit service is periodically reviewed against its aims, strategy and objectives. The aim, objectives and strategy for the service for 2012/13 were set out in the Strategic Audit Plan 2012/15 that was presented to the 19 March 2012 meeting of this Committee, as outlined below.

Service Aim

Internal Audit at Lewes is an independent assurance function established within the Council to provide an objective opinion on the control environment by evaluating its effectiveness in achieving the organisation's objectives. Internal Audit examines, evaluates and reports on the adequacy of the control environment as a contribution to the Council's proper, economic, effective and efficient use of resources.

Service Objectives

- To provide an efficient and effective Internal Audit function which achieves its service standards, and improves performance where possible.
- To deliver the Council's Annual Audit Plan and Strategic Audit Plan.

Expected Outcome

The Council is able to demonstrate an effective control environment with no significant control issues, and make a satisfactory and unqualified declaration on its Annual Governance Statement (AGS).

Internal Audit Strategy

The Council's AGS reports on the effectiveness of the governance framework, and is approved by the Audit and Standards Committee at its September

meeting. The AGS is based upon the results from the Council's assurance arrangements, and the work by Internal Audit and the Council's external auditors, BDO.

The Internal Audit service is provided internally. The staffing is as approved by the Council on 23 February 2000 and is set at the level necessary to ensure audit coverage of the key areas within the three year audit cycle based on a detailed risk assessment.

Results of the review

- 6.2** The Head of Audit and Performance has compared the performance of the Internal Audit service with the aim, objectives and strategy, and has examined the organisation, working methods, performance and quality standards of the service. The review results, together with the details given in the Annual Report on the Council's Systems of Internal Control 2012/13, demonstrate that the Internal Audit service achieves its aim, objectives and expected outcome, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.
- 6.3** The service aims, objectives and strategy for Internal Audit were revised in March 2013 to prepare for the introduction of the Public Sector Internal Audit Standards (PSIAS) that came into force on 1 April 2013. Internal Audit will be assessed against these measures in June 2014.

7 Customer Satisfaction Surveys/Feedback from Users

- 7.1** Customer satisfaction surveys have been part of Internal Audit's quality assurance measures since 2001/2002 and a survey form is sent out with each final report. The results for 2012/13 met target with 100% of comments reported as Very Good, Good or Satisfactory as shown in the table at Appendix A.
- 7.2** The CIPFA Code of Practice 2006 requires there to be periodic feedback from users on the Internal Audit service as a whole. A feedback questionnaire was sent to the Chief Executive and members of the Corporate Management Team (CMT) in May 2013. All comments from that exercise were reported as Very Good or Good.

8 Added Value of Internal Audit

- 8.1** The CIPFA Code of Practice 2006 requires there to be an assessment of the extent to which Internal Audit adds value and assists the Council in achieving its objectives. As an internal facing (back office) service, Internal Audit is able to contribute to the Council's aims, objectives and service priorities by supporting the corporate governance, business planning, performance management and internal control arrangements which help service managers and Councillors to focus on and deliver the priority services.
- 8.2** The May 2013 feedback questionnaire (see 7.2 above) included a question on the overall value of Internal Audit as an aid to management. All comments from the Chief Executive and members of CMT were reported as Very Good or Good.

9 Performance Indicators (PIs)

- 9.1** The Performance Indicator (PI) results for 2011/12, 2012/13 and the targets for 2013/14 are detailed at Appendix A. The results for 2012/13 show that performance was at target or better than target in six of the eight PIs.
- 9.2** The Head of Audit and Performance is to review the effectiveness of the current PI arrangements, and will recommended to a future meeting of the Committee a revised basket of indicators and performance measures.

10 Quality reviews

- 10.1** The Internal Audit team carries out an annual peer review of a sample of audit files to establish that the work has been done in accordance with audit manual procedures, quality standards and the objectives of the audit. The results of the May 2013 review are satisfactory.
- 10.2** BDO undertakes separate reviews of the Internal Audit work for the managed audit of key financial systems and the audits of the grant subsidy claims for HB and NDR. Taken together these two major exercises represent a significant part of the annual workload for Internal Audit. The results of the BDO reviews were that BDO were able to rely on the work of Internal Audit, which was completed to a good standard.
- 10.3** The results of the internal and external reviews have been considered by the Head of Audit and Performance, who confirms that the standards of Internal Audit work comply with the audit manual and the CIPFA Code of Practice.

11 Financial Appraisal

- 11.1** There are no additional financial implications arising from this report.

12 Sustainability Implications

- 12.1** I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is a progress report.

13 Risk Management Implications

- 13.1** The risk assessment shows that if the Audit and Standards Committee does not ensure that Internal Audit is able to discharge its functions effectively there is a risk that a key aspect of the Council's internal control arrangements will not comply fully with best practice. At present, this risk is mitigated by an effective Internal Audit service that is subject to proper management oversight and monitoring by the Audit and Standards Committee.

14 Equality Screening

- 14.1** I have given due regard to equalities issues and, as this is an internal progress monitoring report with no key decisions, screening for equalities is not required.

15 Background Papers

15.1 Strategic Audit Plan 2012/15 presented to the Audit Committee on 15 March 2012.

<http://cmis.lewes.gov.uk/CmisWebPublic/Binary.ashx?Document=4895>

16 Appendices

Appendix A: Performance Indicators (PIs) for Internal Audit.

APPENDIX A PERFORMANCE INDICATORS (PIs) FOR INTERNAL AUDIT

Performance Indicator	Actual 2011/12	Target 2012/13	Actual 2012/13	Target 2013/14
Cost of input 1 Stay within total for Internal Audit Section budget.	Within budget	Within budget	Within budget	Within budget
Productivity and Process Efficiency 2 % of Audit Plan completed. 3 Number of productive audit days achieved. 4 % of draft reports issued within 15 working days of the end of the audit.	93% 785 95%	90% 751 95%	92% 728 94%	90% 774 95%
Compliance with professional standards 5 Positive opinion from PKF review of Internal Audit as per Management Letter.	Positive opinion	Positive opinion	Positive opinion	Positive opinion
Outcome and degree of influence of the service 6 All comments from client satisfaction questionnaires in Categories 1 (Very Good), 2 (Good) or 3 (Satisfactory). 7 % of recommendations agreed compared to number made. 8 % of recommendations implemented by the agreed date.	100% 100% 83%	100% 100% 90%	100% 100% 76%	100% 100% 90%