



AUDIT COMMITTEE - 10TH SEPTEMBER 2014

SUBJECT: INTERNAL AUDIT SERVICES: ANNUAL OUTTURN REPORT 2013/2014

REPORT BY: INTERNAL AUDIT MANAGER

1. PURPOSE OF REPORT

1.1 To inform Members of the work carried out by Internal Audit Services during 2013/2014.

2. LINKS TO STRATEGY

2.1 To ensure that the Council's strategies are delivered in a proper and transparent way.

2. INTRODUCTION

2.1 It is a requirement both of the Public Sector Internal Audit Standards and the Council's own Financial Regulations that an audit plan should be prepared to ensure that there is an effective and efficient use of audit resources.

2.2 In addition to producing the audit plan, it is also a requirement that the Manager for Internal Audit produces an annual report on work carried out by Internal Audit Services during the financial year. This report summarises that activity.

3. THE 2013/2014 AUDIT PLAN

3.1 The internal audit section is based on two groups organised on a functional basis: Group "1" being responsible for establishment audits, contract audits and computer audits, and Group "2" being responsible for system based audits.

3.2 The Annual Plan was prepared on a risk-based approach and is based around four key principles:

Systems System audits would be prioritised and there would be co-operation with the Council's External Auditors to satisfy them of our coverage in this area.

Establishments There would be a medium term strategy to ensure adequate coverage in this area in order that all establishments receive a periodic audit visit. (A schedule of actual against planned visits is shown as Appendix A).

Regularity The safeguarding of assets, income and control of expenditure would remain a priority.

Advice and Assistance Both would be encouraged in order to promote a preventative ethos and not one of pure detection.

- 3.3 At the time of preparing the 2013/2014 Annual Audit Plan the section's actual establishment was 10.04 (full time equivalent) staff, which equates to 2620 man days. Of this total 1893 days were allocated to specific audits, the remainder, 727 days, were classified as overheads to cover holidays, sickness, training, management issues and other non-directly allocated time.

4. ACTUAL OUTTURN COMPARED TO PLAN

- 4.1 The table below shows in summary form an overview of the allocation of audit staff time for 2013/2014 against the original plan. (One of the main performance measures currently adopted by Internal Audit is a comparison of how time is actually spent compared to the audit annual plan. This requires all staff to complete timesheets and allocate time spent against the appropriate client).

DIRECTORATE	PLANNED COVERAGE	ACTUAL COVERAGE
	Days	Days
Education, Lifelong Learning	280	298
Social Services	180	183
Housing	112	202
Environment	359	218
Corporate Services	618	708
Corporate	254	193
Contingency	90	-
Total directly allocated	1893	1802
Total Overhead	727	766
Lost days*		52
Total Days	2620	2620

* One member of staff left during the year and the post was not filled. Staffing establishment reduced to 9.2 fte.

5. PERFORMANCE MEASURES

- 5.1 Due to the nature of internal auditing, performance monitoring and target setting have always been key drivers by which management can assess the effectiveness of the internal audit function. Resource planning, time recording and benchmarking have long been used by internal audit to direct and inform the audit process.

- 5.2 Performance measures are important for two reasons: -

5.2.1 They enable progress over a period of time to be monitored (given that historic data is available to establish a sound base).

5.2.2 They enable targets to be set for future improvement.

- 5.3 The main performance measures for Internal Audit for 2013/14 were as follows:

Sickness Absence
Productivity
Completion of audit plan
Costs remaining within budget

- 5.4 Sickness absence, the section's annual target is to be below the Authority's target rate. In 2014 – the annual rate was 3.2% which was unusually high for the service, this was due to a one off period of long-term sickness. However, this is still below the overall Authority average for the same period.

- 5.5 Draft reports to be issued to management within 10 working days following the completion of the audit fieldwork. Based on a sample analysis actual was 12.9 days (15.5 days previous year). This target may need to be reviewed in the light of recent staffing reductions.
- 5.6 The level of directly allocated time to be 72% of total time available. A level of 70% (70% previous year) was achieved.
- 5.7 To issue all final reports within 5 days of management clearing the draft report. Based on a sample analysis an average of 3.8 days (1.8 days previous year) was achieved.
- 5.8 Audit staff to be available from 8.30 to 5.00, Monday to Thursday, 8.30 to 4.30 Fridays. This target was achieved.
- 5.9 To draw up and have agreed an Annual Plan by the 31st March. The 2013/14 audit plan was agreed by the Audit Committee on 6th March.
- 5.10 To ensure costs are in line with budget. This was achieved.
- 5.11 In addition to the above, client questionnaires are sent out after every audit. Despite the fact that the response rate has fallen off considerably all those received back have been satisfied with the way the audit is conducted and the benefit derived from it.

6. AUDIT WORK 2013/2014

- 6.1 A proportion of internal audit work has required involvement in the development of new systems and procedures. Whilst this is not in accordance with the strict academic definition of internal auditing it is considered beneficial for early audit involvement to avoid future problems due to control weaknesses. A considerable amount of time therefore has been dedicated to an "advisory role".
- 6.2 Additionally, Internal Audit staff continue to provide advice and support to staff on Standing Orders for Contracts, Financial Regulations and financial best practice including tailored training or instruction as and when required.
- 6.3 The following is a summary of activities Internal Audit was involved in during the year:-
 - 6.3.1 Audit resource continued to provide an internal audit review of Local Service Board and , Rural Development Grants administered by the Authority for both internally run projects and for external projects. Audit staff time being recharged at cost to the grant funding body. Internal audit reviews of Welsh Government grants have also been performed in line with the Terms & Conditions of these grants.
 - 6.3.2 The service has provided advice and guidance to a number of service areas and a value for money / operational review at the request of a Community establishment.
 - 6.3.3 Establishments in receipt of an audit visit included two comprehensive schools, seventeen primary schools, four leisure facilities and six social services establishments (see Appendix A).
 - 6.3.4 Audit reviews (including follow-up audits) have been carried out across a wide variety of areas in order to gain an overall opinion on the effectiveness of the internal control system operating within the Council. A list showing a variety of the financial activities reviewed is shown in Appendix B.
 - 6.3.5 The rapid development in information technology is a continuing challenge for internal audit and various areas have been reviewed and recommendations made. The specialist computer auditor continues to work with service auditors and IT personnel.

- 6.3.6 Audit staff assisted with the stocktaking at all the Council's stores and assisted with the introduction of new procedures relating to van based stocks. Additionally staff have participated in a working party on the transition to single source supplier for housing maintenance.
- 6.3.7 102 contractors' final accounts were audited with a combined value of £16m.
- 6.3.8 Issues were resolved in respect of 262 cheques, which, for various reasons had been returned to the Council, 1 of which related to a duplicate payment, the value of which was £240 (the previous year's total 218 and 4 duplicates totalling £3,077).
- 6.3.9 Continuation of our participation in specialist practitioners groups dealing with topical audit issues and the development of a best practice approach. This is seen as an important ingredient in ensuring internal audit staff are aware of the wider issues affecting the delivery of an effective internal audit service.
- 6.3.10 There were 134 anonymous letters logged by Internal Audit which, where appropriate, were passed to the relevant departments for action (81 last year).

7. OUTCOMES

- 7.1 The regularity work carried out by Internal Audit Services is designed to assess overall compliance with management policies and procedures. This work is supplemented and complemented by system reviews to measure and recommend on the level and effectiveness of internal controls.
- 7.2 Internal audit reviews concentrate on the negative aspects and this can sometimes give a misleading picture of the financial control environment of an organisation. Whilst there may be, in an organisation as large as Caerphilly CBC, areas of concern in relation to the detailed financial administration there are also many examples of good practice.
- 7.3 During 2013/14 all appropriate audit reports were given an audit opinion on the adequacy of the systems reviewed, the controls in place, and compliance with those controls to provide an overview of the whole control environment and evidence to support the financial element of the Council's annual governance review process.
- 7.4 During the year there were 20 systems based audits which generated 40 opinions, there were 29 establishments audited and 30 IT / contract audits completed. Of these, 86 opinions were found to be at least satisfactory. There were however 13 opinions which were identified as being less than satisfactory, details of which are as follows:-
- | | |
|------------------|----|
| - Establishments | 3 |
| - Systems based | 10 |
- 7.5 In the majority of cases management and the auditees have accepted the recommendations made by Internal Audit. Recipients of audit reports (excl. establishments) are required to submit action plans to the internal audit section to ensure proposals have been actioned or are being adequately progressed. During the year 24 action plans relating to previous years audits were reviewed.
- 7.6 Those areas identified in 7.4 as not being satisfactory have been or are being dealt with via an ongoing audit process thus ensuring issues are resolved appropriately. None of the issues identified are considered to be material in the context of the whole authority and are not felt to be significant enough to warrant disclosure within the annual review of the Council's governance arrangements.

7.7 There have been no materially significant special investigations undertaken by Internal Audit during the year.

8. FINANCIAL IMPLICATIONS

8.1 None other than those previously mentioned.

9. PERSONNEL IMPLICATIONS

9.1 None other than those previously mentioned.

10. EQUALITIES IMPLICATIONS

10.1 An equalities impact assessment is not needed because the issues covered are for information purposes only, therefore the Council's full equalities impact assessment process does not need to be applied.

11. CONCLUSIONS

11.1 This report has been prepared as a review of Internal Audit activity during 2013/2014. It not only highlights the extent of our work but also the diversity.

11.2 No fundamental issues have come to light as a result of audits carried out on both the major financial systems and other financial and administrative systems and procedures. Where issues have been identified and brought to management's attention an action planning process is in place to drive through the necessary improvements. Overall it is considered that the Council continues to operate within a control environment that should minimise the risk of loss to the Authority.

12. RECOMMENDATIONS

12.1 Members are asked to note the contents of this annual review of the operation of Internal Audit Services.

13. REASONS FOR THE RECOMMENDATIONS

13.1 To ensure Members are aware of the level of internal audit coverage and the overall opinion derived from undertaking this work.

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Appendices:
Appendix A Schedule Of Actual Against Planned Establishment Visits
Appendix B Audit Coverage: Systems