

AUDIT COMMITTEE

26 June 2014

ANNUAL INTERNAL AUDIT REPORT AND OPINION 2013 -14

REPORT OF THE HEAD OF SOUTHERN INTERNAL AUDIT PARTNERSHIP

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RECENT REFERENCES:

AUD064 – Public Sector Internal Audit Standards - Internal Audit Charter

AUD065 – Internal Audit Plan 2013/2014 (Revised)

AUD075 – Internal Audit Progress Report – November 2013

AUD080 – Internal Audit Progress Report – January 2014

EXECUTIVE SUMMARY:

The purpose of this paper is to provide the Audit Committee with the Chief Internal Auditors opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31 March 2014.

RECOMMENDATION:

That the Audit Committee approves the Chief Internal Auditor's annual report and opinion for 2013-14.

AUDIT COMMITTEE

26 June 2014

ANNUAL INTERNAL AUDIT REPORT AND OPINION 2013 - 14

REPORT OF THE HEAD OF SOUTHERN INTERNAL AUDIT PARTNERSHIP

DETAIL:

1 Introduction

1.1 The purpose of this paper is to provide the Audit Committee with the Chief Internal Auditors opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31 March 2014.

2 Summary

2.1 In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control to inform the production of the Annual Governance Statement.

2.2 The Annual Report for 2013-14 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the system of internal control and summarises audit work from which that opinion is derived for the year ending 31 March 2014.

2.3 The Audit Committee's attention is drawn to the following points:

- Internal audit was compliant with the Public Sector Internal Audit Standards during 2013/14;
- The revised internal audit plan for 2013/14 has been substantially delivered;
- The Council's framework of governance, risk management and management control is considered to be 'Adequate' and audit testing has demonstrated controls to be working in practice, and;
- Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective actions and a timescale for improvement were agreed with the responsible managers.

OTHER CONSIDERATIONS:

3 COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

3.1 The Internal Audit work supports the Council's strategies and change plans.

4 RESOURCE IMPLICATIONS:

4.1 None directly from this report.

5 RISK MANAGEMENT ISSUES

5.1 The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register.

BACKGROUND DOCUMENTS:

None

APPENDICES:

Appendix 1 – Annual Internal Audit Report and Opinion 2013 - 14

Annual Internal Audit Report & Opinion

2013 – 14

Winchester City Council



Southern Internal Audit Partnership

Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2011, which states that a relevant body must:

‘Undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations 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’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Winchester City Council's audit need that has been covered within the period

Audit Opinion

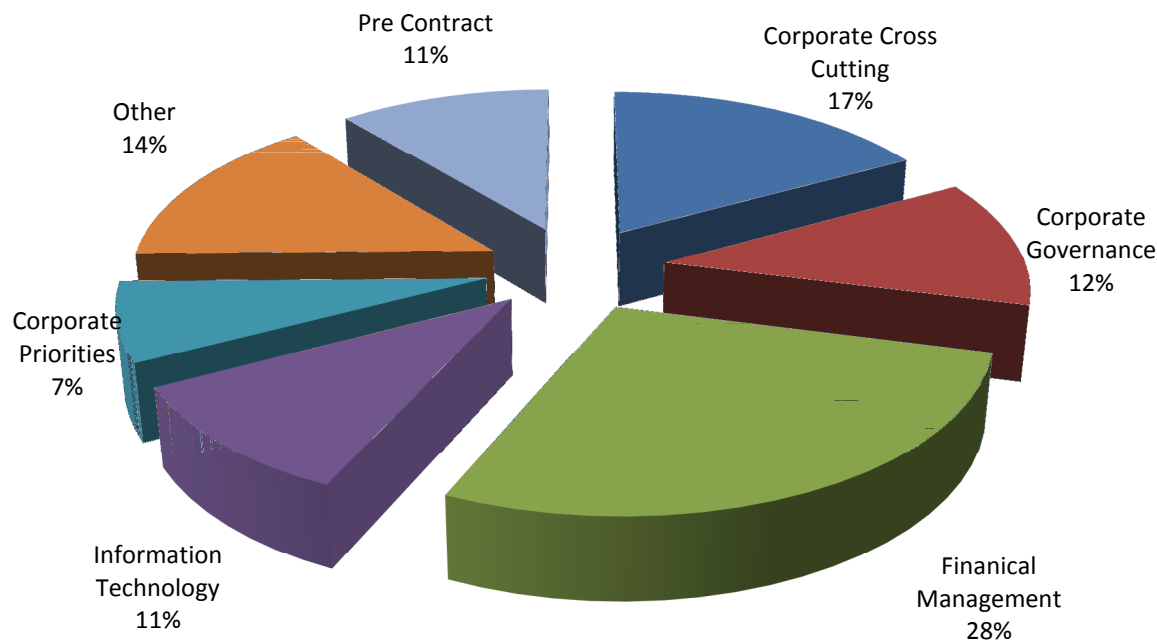
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Winchester City Council's internal control environment.

In my opinion, Winchester City Council's framework of governance, risk management and management control is 'Adequate' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2013-14 Internal audit plan, approved by the Audit Committee, 12 March 2013, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

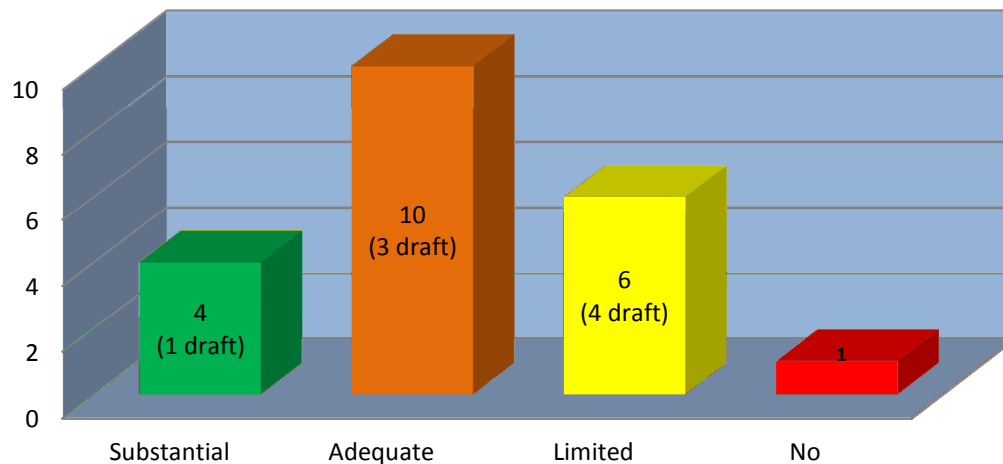
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion the Southern Internal Audit Partnership undertook 34 reviews throughout the year ending 31 March 2014

The revised 2013-14 internal audit plan has been delivered with the following exceptions:

- At the time of this report, 3 reviews remained work in progress: and
- Work is substantially complete and an opinion has been formed for 8 reviews, however, final reports have not yet been agreed with management:

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



Substantial - A sound framework in place that is operating effectively;

Adequate - Basically a sound framework in place with possible opportunities to improve controls or some immaterial evidence of inconsistent application;

Limited - Critical weakness (es) identified within the framework and / or significant evidence of inconsistent application; or

No - Fundamental weaknesses have been identified or the framework is ineffective or absent.

*10 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, assurance mapping, grant certification or investigations

5. Significant Issues Arising

Accounts Payable (Draft) - Our review of accounts payable highlighted a significant breakdown in controls to ensure invoices were accurately scanned and validated giving rise to a number of duplicate payments going undetected throughout the year. This was compounded through ineffective payment authorisation practices by budget holders throughout the Council. Analysis further identified a number potential duplicate payments where 'key fields' have been matched that require further investigation.

Additionally audit observations noted substantial non-compliance in the raising of purchase orders and certification of goods received as part of the accounts payable process.

It is recognised that resource implications may have had an adverse impact on the continuity and regularity of key controls and processes operating throughout the course of the year. We are reassured by the additional resource that has since been assigned to review the 'Procure to Pay' procedures and in the on-going work to investigate the potential duplicate payments highlighted as part of our data analysis.

Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers

6. Anti Fraud and Corruption

The Council continue to conform to the National Fraud Initiative (NFI). Feedback through the 2012/13 NFI exercise (during 2013-14) identified 293 'recommended matches'.

Within the year work has been on-going to investigate identified matches for fraudulent activity.

	Recommended Matches	Processed	% Complete
Housing Benefits	125	125	100
Payroll	3	3	100
Housing Tenants	28	28	100
Parking Permits	10	10	100
Insurance	1	1	100
Creditors	108	108	100
VAT	18	18	100
	293	293	

Outcomes from investigations to date have identified 2 fraudulent cases and 51 errors with a value of £11,849.03.

In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of 1 allegation of fraud, corruption or improper practice. Our investigation into this case remains on-going.

We have subsequently provided advice to management as required

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a new requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against ‘the Standards’ and the Local Government Application Note (LGAN) for conformance. The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

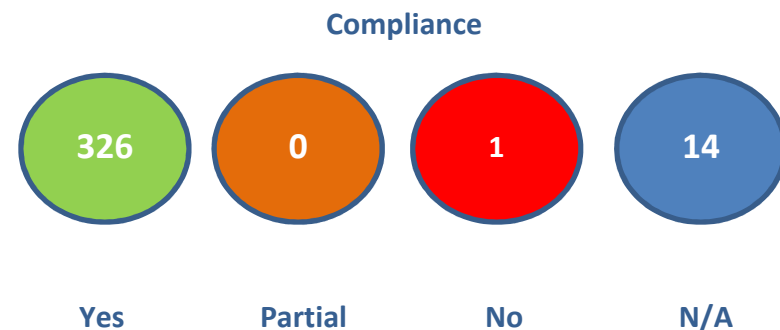
In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

The Standards stipulate that ‘internal assessments’ should be undertaken as a self-assessment or by other persons within the organisation with sufficient knowledge of internal audit processes.

During 2013 – 14 The Head of the Southern Internal Audit Partnership undertook a self-assessment against the Standards and the LGAN. To provide independence to the process the self –assessment was reviewed by Hampshire County Council’s Monitoring Officer to ensure it presented a true and fair view.

Independent analysis confirmed that the self-assessment provided ‘*a fair assessment of the internal audit activity*’

The form of the external assessment must be agreed with Senior Management and the Board. A paper is scheduled to be presented to the Key Stakeholder Board in September to review the alternative options for external assessment.



8. Disclosure of Non-Conformance

'It is my opinion that in all material respects the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards'

Whilst the Standards only require non-conformance to be disclosed when it impacts the overall scope or operation of the internal audit activity, the additional requirements for the public sector state *'that all instances of non-conformance and progress against improvement plans must be reported in the annual report'*. The QAIP Action Plan is provided at Appendix 1.

9. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complimenting the QAIP this was achieved in 2013-14 through the following internal processes:

- On-going liaison and communication with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to ensure development of a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- A review of the 'Effectiveness of the System of Internal Audit' in accordance with the Accounts and Audit (England) Regulations 2011;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures; and
- Review and quality control of all internal audit work by professional qualified senior staff members.

10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Aspect of service	2012-13 Actual (%)	2013-14 Actual (%)
Revised plan delivered (including 2012/13 c/f)	-	91
Positive customer responses to quality appraisal questionnaire	-	100
Compliant with the Public Sector Internal Audit Standards	-	Yes

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Winchester City Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
Head of Southern Internal Audit Partnership
June 2014

Appendix 1 – Quality Assessment & Improvement Action Plan

Compliance against the Public Sector Internal Audit Standards / Local Government Application Note

Public Sector Internal Auditing Standards – No Compliance

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
3.2 - Independence and Objectivity					
Does the board: e) approve decisions relating to the appointment and removal of the CAE	No	Such actions are not constitutionally permissible to be undertaken by 'the board' (Local Authorities (Standing Orders) (England) Regulations 2001)	-	-	-

Public Sector Internal Auditing Standards – Not Applicable

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
3.2 - Independence and Objectivity					
Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?	N/A	There have been no known instances where an internal auditor has used information for personal gain	-	-	-
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	N/A	There have been no known instances of real or apparent impairment of independence or objectivity.	-	-	-
If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	N/A	The Chief Internal Auditor has no operational responsibilities outside of the internal audit function.	-	-	-
3.4 - Quality Assurance and Improvement Programme					
Has the CAE considered the pros and cons for the different types of external assessment (i.e. 'full' or self-assessment plus 'independent validation')?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.	The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form timing and scope of the external assessment.	Head of Southern Internal Audit Partnership	September 2014

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.	The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form timing and scope of the external assessment.	Head of Southern Internal Audit Partnership	September 2014
Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.	The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form timing and scope of the external assessment.	Head of Southern Internal Audit Partnership	September 2014
Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.	The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form timing and scope of the external assessment.	Head of Southern Internal Audit Partnership	September 2014
Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April	The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the	Head of Southern Internal Audit	September 2014

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
<p>Competence can be determined in the following ways:</p> <ul style="list-style-type: none"> a) experience gained in organisations of similar size b) complexity c) sector (ie the public sector) d) industry (ie local government), and e) technical experience. <p>Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.</p>		2013; as such there is no requirement to have completed an external assessment until 31 March 2018.	options, form timing and scope of the external assessment.	Partnership	
How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.	The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form timing and scope of the external assessment.	Head of Southern Internal Audit Partnership	September 2014
Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.	The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form timing and scope of the external assessment.	Head of Southern Internal Audit Partnership	September 2014

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
4.1 - Managing the Internal Audit Activity					
Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	N/A	Internal audit is not provided by an external service provider.	-	-	-
4.5 - Communicating Results					
Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:					
a) The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
b) The reason(s) for non-conformance?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
c) The impact of non-conformance on the engagement and the engagement results?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-