

**REPORT TO:** Business Efficiency Board  
**DATE:** 11 June 2014  
**REPORTING OFFICER:** Operational Director – Finance  
**SUBJECT:** Internal Audit Annual Report – 2013/14  
**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 The Public Sector Internal Audit Standards require the Head of Internal Audit to deliver an annual audit opinion and report which can be used to inform the Annual Governance Statement. The annual report must provide:

- A conclusion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;
- A summary of the work that supports the opinion;
- A statement on conformance with the Public Sector Internal Audit Standards.

1.2 The Accounts and Audit Regulations 2011 provide a requirement for local authorities to conduct a review of the effectiveness of its internal audit at least once each year. This review is intended to provide members with a basis for determining the extent to which reliance can be placed on the internal audit opinion.

## **2.0 RECOMMENDATIONS: That the Board notes and approves:**

- (1) The Head of Internal Audit's opinion on the Council's framework of governance, risk management and control;**
- (2) The summary of work that supports the opinion;**
- (3) The statement on conformance with the Public Sector Internal Audit Standards;**
- (4) That the required five-yearly external assessment of the Council's internal audit arrangements be undertaken by another local authority in the region at a date to be agreed; and**
- (5) The findings of the annual review of the effectiveness of internal audit.**

### **3.0 SUPPORTING INFORMATION**

#### **Annual Opinion on the Council's control environment**

- 3.1 Internal audit work completed during the 2013/14 financial year was carried out in accordance with the Internal Audit plan, which was approved by the Business Efficiency Board on 27 February 2013. The plan was designed in such a way to allow Internal Audit to form an overall opinion on the Council's risk management, control and governance processes.
- 3.2 In providing an overall opinion on the Council's system of internal control, it should be noted that assurance can never be absolute. Internal Audit can only provide reasonable assurance that there are no major weaknesses in the areas reviewed. In arriving at an opinion, consideration is given to:
- The findings from the audit work undertaken during the year;
  - The amount of audit work undertaken in the year compared with work planned;
  - The results of follow up action in respect of previous audit work;
  - Whether or not any significant recommendations have not been accepted by management and the consequent risks;
  - The extent to which resource constraints prevent Internal Audit from providing assurance over all key risks faced by the Council.

#### **Opinion on the Council's Control Environment**

The Head of Internal Audit is required to form an opinion on the adequacy and effectiveness of the Council's internal control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified.

Although a number of high priority issues have been reported by Internal Audit during the course of the 2013/14 financial year, the actions that management has agreed to take in response to those findings will, if implemented satisfactorily, resolve them in an appropriate manner. I am therefore of the opinion that the Council continues to operate a well-established control environment.

There are no significant control issues identified through the work of Internal Audit that remain outstanding and require disclosure in the Council's 2013/14 Annual Governance Statement.

#### **Summary of work supporting the Annual Opinion**

- 3.3 The 2013/14 Internal Audit Plan comprised 1,086 audit days based on an establishment of 6.5 FTE auditors. By year end, Internal Audit had delivered 1,005 audit days (92.5% of the total planned days for the

year). The shortfall in the number of audit days delivered was a result of a staffing vacancy that arose during the year.

- 3.4 The reduction in available resources was managed by prioritising audit coverage and some planned work being deferred until the 2014/15 financial year.
- 3.5 The level of audit coverage achieved during the year is considered sufficient to ensure that a confident and evidence-based annual opinion can be provided.
- 3.6 A summary of the audit reviews finalised during the year is included in Appendix 1. Each audit is graded in terms of how well risks are managed in the area under review. Three different assurance levels are used: substantial, adequate and limited.
- 3.7 68 audit reports were finalised and reported to the Board during the year:
  - 32 areas received substantial assurance opinions;
  - 33 areas received adequate assurance opinions;
  - Three audits received limited assurance opinions.
- 3.8 Eight 'follow up' audits were completed in the year and these are detailed in Appendix 2. Follow up audits are graded in terms of the progress made in addressing the issues raised in the original audit report:
  - Six areas received substantial assurance opinions;
  - One area received an adequate assurance opinion;
  - One area received a limited assurance opinion.

### **Statement on conformance with the Public Sector Internal Audit Standards**

- 3.9 A common set of Public Sector Internal Audit Standards was introduced in April 2013. The standards apply to all public sector internal audit providers and supersede the CIPFA Code of Practice for Internal Audit in Local Government.
- 3.10 A self-assessment has been completed against the new standards, which demonstrates that the Council's internal audit arrangements are substantially compliant. An action plan has been developed to address those areas where compliance can be strengthened further (see Appendix 3).
- 3.11 It is a requirement that each internal audit provider is externally assessed against the standards at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.
- 3.12 The North West region's Chief Internal Auditors' Group is proposing that the external assessments be co-ordinated through the Group with

the Head of Internal Audit in each local authority undertaking the review of another authority in the region. This will provide a cost-effective means of complying with the external assessment requirement.

### **Annual review of the effectiveness of internal audit**

3.13 The Accounts and Audit Regulations 2011 provide a requirement for local authorities to conduct a review of the effectiveness of its internal audit arrangements. This should be completed at least once each year and to report the findings of the review alongside the annual opinion on the system of internal control.

3.14 The Operational Director – Finance has reviewed the Council's internal audit arrangements and considers them to be effective and fit for purpose. The following evidence supports this conclusion:

- The Council has designated the Business Efficiency Board as its Audit Committee. The Board:
  - Approves the Internal Audit plan;
  - Receives quarterly progress reports against the Audit Plan;
  - Provides robust challenge on issues identified through the work of internal audit and seeks explanations from officers, when considered necessary, on risk and control issues.
- The Council's internal audit arrangements substantially comply with the new Public Sector Internal Audit Standards and the CIPFA Statement on the role of the Head of Internal Audit in public service organisations. An action plan has been developed to address any areas where compliance can be further strengthened.
- All employees within the Internal Audit team hold a recognised accountancy and / or internal audit qualification.
- The Council's external auditors (Grant Thornton) place reliance where possible on the work of internal audit in regards the systems that compile the material disclosures for the statement of accounts.
- Internal Audit seeks feedback on the quality of service it provides by issuing an 'Internal Audit Satisfaction Questionnaire' at the end of each audit. The responses received from the questionnaires issued in 2013/14 demonstrated a high level of client satisfaction with the audit service provided.

## **4.0 POLICY, FINANCIAL AND OTHER IMPLICATIONS**

4.1 Under Regulation 6 of the Accounts & Audit Regulations 2011, the Council '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'. This responsibility is delegated to the Operational Director – Finance.

4.2 The Head of Internal Audit's opinion on the Council's control environment is one of the key sources of assurance that supports the Council's Annual Governance Statement.

4.3 The internal audit work carried out during the year provides assurance that the Council's main financial systems are operating effectively.

## **5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

5.1 The Public Sector Internal Audit Standards define internal auditing as being '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'.

5.2 Internal Audit therefore supports the Council in achieving all the aims and objectives set out in the Sustainable Community Strategy and the Corporate Plan.

## **6.0 RISK ANALYSIS**

6.1 The work of Internal Audit is part of the overall framework that provides assurance that significant risks to the achievement of the Council's objectives are being managed effectively.

## **7.0 EQUALITY AND DIVERSITY ISSUES**

7.1 None arising directly from this report.

## **8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

Document	Place of Inspection	Contact
Internal Audit Plan 2013/14 Internal Audit reports	1 <sup>st</sup> Floor, Kingsway House, Kingsway, Widnes	Merv Murphy

**Internal Audit reports issued in 2013/14**

Audit Area		Level of Assurance		
		Substantial	Adequate	Limited
<b>Children &amp; Enterprise Directorate</b>				
1.	16-19 Bursary Fund			
2.	Halebank CEVC Primary School			
3.	St Berteline's CE Primary School			
4.	Pewithall Primary School			
5.	Fairfield Junior School			
6.	St Augustine's RC Primary School			
7.	Brookvale Primary School			
8.	Hale CE Primary School			
9.	Daresbury Primary School			
10.	Ashley School			
11.	The Bankfield			
12.	Saints Peter and Paul Catholic College			
13.	Ditton Nursery School			
14.	The Park Primary School			
15.	Ditton Primary School			
16.	St. Mary's CE Primary School			
17.	Westfield Primary School			
18.	Brookfields Special School			
19.	Astmoor Primary School			

## Appendix 1

Audit Area		Level of Assurance		
		Substantial	Adequate	Limited
20.	Out of School Clubs			
21.	Special Educational Needs			
22.	Early Years Grants			
23.	Holy Spirit Catholic Primary School			
24.	Cavendish High School			
25.	St. Chad's Catholic & Church of England High School			
26.	Weston Point Community Primary School			
27.	Synergy – Children's Management Information System			
28.	Lunts Heath & Windmill Hill Primary School Refurbishment Projects			
29.	Birchfield Nursery School			
30.	Simms Cross Primary School			
31.	Hallwood Park Primary School			
32.	Spinney Avenue Primary School			
33.	Fairfield Infants & Junior Schools			
34.	Our Lady of Perpetual Succour Primary School			
35.	The Bridge School			
36.	The Brow Community Primary School			
37.	Troubled Families			
<b>Communities Directorate</b>				
38.	Oakmeadow Resource Centre			
39.	School Meals Income – Cash Cafeterias			
40.	Halton Stadium – Counterfeit Notes			

## Appendix 1

Audit Area		Level of Assurance		
		Substantial	Adequate	Limited
41.	Halton Day Services			
42.	Trade Waste			
43.	Parks & Sports Grounds			
44.	Halton Supported Housing Network			
45.	Libraries			
<b>Policy &amp; Resources Directorate</b>				
46.	Loans & Investments (2012/13)			
47.	Housing Benefit & Council Tax Benefit (2012/13)			
48.	Sundry Debtors (2012/13)			
49.	Main Accounting System – Journals (2012/13)			
50.	Construction Industry Tax Deduction Scheme			
51.	Central Electronic Storage			
52.	NNDR			
53.	Accounts Payable			
54.	Income Control			
55.	Internal Charging			
56.	Council Tax			
57.	Car Allowances, Mileage Claims & Expenses			
58.	Control of vehicles			
59.	Carefirst			
60.	Schools' Information Management System			
61.	Roadbase Fleet Management System			



## Appendix 1

Audit Area		Level of Assurance		
		Substantial	Adequate	Limited
62.	Mersey Gateway Procurement Process			
63.	Fixed Assets			
64.	Payroll			
65.	Use of Volunteers			
66.	Salary Sacrifice Schemes			
67.	Housing Benefit			
68.	Loans & Investments			
<b>Total</b>		<b>32</b>	<b>33</b>	<b>3</b>

### Key

Assurance Opinion	Explanation
● Limited	A number of key risks are not managed effectively. The control systems in operation are in need of significant improvement.
● Adequate	The control systems in operation are generally sound. However, opportunities exist to improve the management of some risks.
● Substantial	There is a sound system of control in operation to manage risks effectively.

**Internal Audit 'follow up' reviews - 2013/14**

Audit Area		Level of Assurance		
		Substantial	Adequate	Limited
<b>Children &amp; Enterprise Directorate</b>				
1.	Children with Disabilities			
2.	Building Cleaning			
3.	Westfield Primary School			
4.	Warrington Road Nursery School			
5.	Murdishaw West Primary School			
6.	Beechwood Primary School			
<b>Policy &amp; Resources Directorate</b>				
7.	Capital Programme			
8.	Mayor's Fund Raising Account			
<b>Total</b>		<b>6</b>	<b>1</b>	<b>1</b>

**Key**

Assurance Rating	Explanation
● Limited	Little progress made in implementing the agreed recommendations.
● Adequate	Good progress made in implementing the agreed recommendations.
● Substantial	Substantial progress made in implementing the agreed recommendations.

**Public Sector Internal Audit Standards – Action Plan**

PSIAS Ref.	Standard	Status	Comments	Action
<b>Independence and Objectivity, Impairment to Independence or Objectivity</b>				
1130 3.2	Assurance engagements in areas over which the Head of Audit also has operational responsibility, have been overseen by someone outside of the internal audit activity.	Partially Compliant	<p>The Head of Internal Audit has operational responsibility for other finance functions. When one of these functions is audited the engagement is overseen by the Principal Auditor, who has no operational responsibilities.</p> <p>The Principal Auditor reports directly to the Operational Director – Finance in regard to these engagements.</p> <p>The responses to any issues raised in the audit report will be agreed by the Operational Director – Finance in consultation with the manager responsible for the service area.</p>	<p><b><u>Action:</u></b></p> <p>No further action required at this present time. However, this arrangement will be kept under review.</p> <p><b><u>Responsible:</u></b></p> <p>Operational Director - Finance</p> <p><b><u>Timescale:</u></b></p> <p>Ongoing</p>

PSIAS Ref.	Standard	Status	Comments	Action
Proficiency and Due Professional Care Continuing Professional Development				
1230 3.3	The Head of Audit periodically assesses individual auditors against the predetermined skills and competencies.	Partially Compliant	<p>Auditors' skills and abilities are assessed through the internal audit team's quality assurance arrangements for each audit assignment.</p> <p>Each post in the internal audit team has a person specification that details the skills and qualifications required for the post. Essential criteria must be met by applicants before an appointment can be made.</p> <p>However, a full skills and competency matrix for the different posts in the internal audit team has not yet been developed.</p>	<p><b>Action:</b> A skills and competency matrix will be developed to enable an annual assessment to be completed. The results of the assessment will be used to identify any training requirements for the individual auditors.</p> <p><b>Responsible:</b> Divisional Manager – Audit &amp; Operational Finance</p> <p><b>Timescale:</b> April 2015</p>

PSIAS Ref.	Standard	Status	Comments	Action
Proficiency and Due Professional Care Continuing Professional Development				
1230 3.3	Internal auditors maintain a record of their professional development and training activities.	Partially Compliant	There is currently no formal system to record training received, as internal auditors are responsible for maintaining their own training records for CPD purposes.	<p><b>Action:</b> A formal method of recording training received will be developed to help ensure training requirements identified are being fulfilled for the individual auditor.</p> <p><b>Responsible:</b> Divisional Manager – Audit &amp; Operational Finance</p> <p><b>Timescale:</b> July 2014</p>
Quality Assurance and Improvement Programme				
1300 3.4	The Head of Audit has developed a Quality Assurance and Improvement Programme that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated.	Partially Compliant	Whilst the Internal Audit team operates quality control procedures over audit engagements and audit reporting, a formal Quality Assurance and Improvement Programme has not yet been developed.	<p><b>Action:</b> A Quality Assurance and Improvement Programme will be developed that fully complies with all the requirements of the Public Sector Internal Audit Standards.</p> <p><b>Responsible:</b> Divisional Manager – Audit &amp; Operational Finance</p> <p><b>Timescale:</b> October 2014</p>

PSIAS Ref.	Standard	Status	Comments	Action
Quality Assurance and Improvement Programme, Internal Assessments				
1300 3.4	On-going performance monitoring includes comprehensive performance targets	Partially Compliant	<p>The performance of the Internal Audit Service is monitored and reported to the Business Efficiency Board in terms of the delivery of the Audit Plan.</p> <p>A range of milestones / performance targets relating to the work of Internal Audit are also included in the Quarterly Monitoring reports.</p>	<p><b>Action:</b> Performance targets relating to Internal Audit to be reviewed.</p> <p><b>Responsible:</b> Divisional Manager – Audit &amp; Operational Finance</p> <p><b>Timescale:</b> March 2015</p>
Performance Standards, Planning				
2010 4.1	<p>The internal audit activity's plan of engagements is based on a documented risk assessment</p> <p>The risk assessment is used to develop the plan of engagements at least annually.</p>	Partially Compliant	<p>The audit planning process is informed by:</p> <ul style="list-style-type: none"> <li>• Consultation with Strategic Directors and Operational Director regarding priorities for audit coverage;</li> <li>• Review of the Council's risk registers;</li> <li>• Consideration of new and emerging risks, both nationally and specific to the Council.</li> </ul>	<p><b>Action:</b> During the planning stages of the 2015/16 Audit Plan an efficient method of documenting the risk assessment process will be developed.</p> <p><b>Responsible:</b> Divisional Manager – Audit &amp; Operational Finance</p> <p><b>Timescale:</b> March 2015</p>

PSIAS Ref.	Standard	Status	Comments	Action
Managing the Internal Audit Activity Coordination				
2050	The Head of Audit has carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance.	Partially Compliant	An assurance mapping exercise is not completed on an annual basis. However, a review of the reliance that can be placed upon other assurance providers is completed where relevant for each audit engagement.	<p><b>Action:</b></p> <p>The benefits that will be gained in completing an assurance mapping exercise will be explored as part of the preparation of the 2015/16 Audit Plan.</p> <p><b>Responsible:</b></p> <p>Divisional Manager – Audit &amp; Operational Finance</p> <p><b>Timescale:</b></p> <p>March 2015</p>
Managing the Internal Audit Activity , Engagement Objectives				
2210	<p>Objectives have been agreed for each engagement and Internal Auditors carried out a preliminary risk assessment of the activity under review.</p> <p>The engagement objectives reflect the results of the preliminary risk assessment that has been carried out.</p>	Partially Compliant	<p>Risk assessments are completed for each audit and used to inform the audit objectives.</p> <p>However, the risk assessment results are not always fully documented within a terms of reference that is issued to the client.</p>	<p><b>Action:</b></p> <p>Procedures have been introduced to ensure that a terms of reference is developed and agreed for each audit assignment.</p> <p>Each terms of reference will document the audit objectives that are set from the results of a risk assessment.</p> <p><b>Responsible:</b></p> <p>Divisional Manager – Audit &amp; Operational Finance</p> <p><b>Timescale:</b></p> <p>May 2014</p>

PSIAS Ref.	Standard	Status	Comments	Action
Performing the Engagement, Documenting Information				
2330	The Head of Audit has developed and implemented retention requirements for all types of engagement records.	Non-compliant	<p>A document retention policy has not been specifically developed for Internal Audit.</p> <p>Internal Audit reports are currently retained indefinitely.</p> <p>Audit working papers are held electronically for an indefinite period.</p>	<p><b>Action:</b> A document retention policy will be developed and implemented for all types of internal audit engagement records.</p> <p><b>Responsible:</b> Divisional Manager – Audit &amp; Operational Finance</p> <p><b>Timescale:</b> October 2014</p>