

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: **27 June 2013**

Report of: **Director of Finance and Resources**

Subject: **HEAD OF AUDIT'S ANNUAL REPORT 2012/13**

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2012/13 and gives an overall assurance opinion on the adequacy and effectiveness of the Council's internal control environment. It is one of the key documents supporting the Annual Governance Statement.

Generally a good level of control was found in Council services. No minimal assurance opinions were given in the year although the spread of opinions being awarded across the Strategic Audit Plan is showing a slight downward trend. No errors in income collection or payments out were again recorded.

All audits from the revised internal audit plans were in progress by the end of May with the exception of one audit which is due to start in June. All performance indicators were comparable to the previous year with a slight reduction in the level of client satisfaction.

RECOMMENDATION

That the contents of the report are noted as a source of evidence for the 2012/13 Annual Governance Statement

INTRODUCTION

1. The Council is legally required to publish an Annual Governance Statement. Its purpose is to give assurance or produce a management action plan to address weaknesses in the effectiveness of the Council's corporate governance, internal control and risk management arrangements.
2. This report covers the assurances that are available through the work of the Internal Audit service and is one of the key documents which will inform the production of this year's Annual Governance Statement. Its purpose is to summarise the completion of the Annual Audit Plan and findings arising from that work such that an opinion can be given on the adequacy and effectiveness of the control environment.

WORK COMPLETED BY INTERNAL AUDIT

Planned Work

3. In accordance with best professional practice, the Internal Audit Service carries out its activities based on an annual plan of work agreed before the start of the year, which is based on a risk assessment of all of the Council's systems. Most of these activities use 'risk based auditing' which involves the assessment of the adequacy of financial, management, ICT and legality controls in operation to mitigate the risks within the system.
4. The 2012/13 plans were approved by the Audit Committee and consisted of:
 - The In-house Plan (covering specific fraud or governance reviews);
 - The Contractor's Plan (covering the risk based work derived from an audit needs assessment) delivered in 2012/13 by Deloitte & Touche.
5. During 2012/13, the plan was implemented in regular consultation with the Statutory Chief Finance Officer for the Council, who has responsibility for the maintenance of an adequate and effective audit service in accordance with the Accounts and Audit Regulations 2011. Quarterly reports on the progress of the plans have also been presented to this committee.

Completion of the Planned Work

6. A total of 31 pieces of audit work were included in the revised audit plans for 2012/13, all but 1 of which has been completed, or are in progress, by the year end. The piece of work not completed was the audit of the Legal Services contract which will still be completed early in 2013/14. One other audit on Miscellaneous Democratic Services has been postponed until 2013/14 at the service manager's request.
7. A summary of the nature of the audits making up the original and revised plans is attached as [Appendix A](#). This shows that there has been good coverage of the different levels of system which make up the Council's control environment.
8. There are 3 audits where the reports have not been finalised yet, but in the case of the CSC Process (Disabled Parking) audit has insufficient work been completed such that the findings from this work cannot be used in the Head of Audit's report at this point of time. Therefore the opinion will be based on 93% of the plan.

FINDINGS AND ASSURANCE AVAILABLE FROM INTERNAL AUDIT WORK

9. The findings from audit work consist of the following four key pieces of information which are used to assess the overall level of control in that service or system:
- The assurance opinion awarded for the adequacy of controls found (judged against the risks and control areas covered in that audit);
 - The level of recommendation implementation that occurred since the previous audit as a remedy to address weaknesses found;
 - The level of excess expenditure or under achieved income discovered as a result of the audit, referred to as "errors";
 - The level of policy compliance found during the audit.
10. A summary of these key pieces of information arising from each completed audit (where it is applicable) is given in [Appendix B](#), and discussed below.

Assurance Opinions

11. At the end of a risk based audit, an opinion is usually given from the scale: Strong, Reasonable, Limited, and Minimal. The opinion reflects the level of internal control found within the system for those areas tested and is mainly determined by the nature of recommendations that have been made. These are classified on the scale: Essential, Important and Advisory.
12. [Appendix B](#) shows the opinions that were given for those audits where it was applicable to do so in 2012/13. The overall spread of opinions compared to the previous 5 years is summarised below. Although the grading system changed in 2011/12 and is not directly comparable to the previous system, there is a slight downward trend in the opinions being awarded.

Table 1 – Spread of Opinions/ Grades issued for Audits in last 5 years

	Strong	Reasonable	Limited	Minimal	Total
2012/13	8	16	3	0	27
2011/12	13	14	1	0	28
	Very Good / Good	Satisfactory	Fair	Poor	Total
2010/11	22	6	0	0	28
2009/10	13	12	2	0	27
2008/09	13	19	3	0	35

13. The table below shows the movements in opinions issued for specific audits this year:

Table 2 – Audits Changing Opinion

Audit	Previous Opinion	Current Opinion
Audits Increasing in Opinion		
Ordering and Payment of Invoices	Reasonable	Strong
Audits Decreasing in Opinion		
Cash Collection and Banking	Strong	Reasonable
Network Security and Infrastructure	Strong	Reasonable
Data Protection	Reasonable	Limited
Off Street Parking	Reasonable	Limited

14. Ten audits carried out in 2012/13 have been audited for the first time or given an opinion for the first time. These resulted in 8 opinions of Reasonable and 2 of Strong. The spread of opinions across the whole strategic audit plan of 192 audits is shown graphically in [Appendix C](#), which shows that as new audits are carried out and others are revisited there is a slight trend towards the right (lower opinions being given).
15. We currently have no systems where the lowest opinion of Minimal has been given although 5 (3%) have been given the opinion of Limited (Fair). Two of these relate to contract management which is still being tackled as a corporate project. Two new limited assurance opinions relate to this year's audits of Data Protection and Off Street Parking. The fifth relates to the limited assurance opinion for last year's audit of Ferneham Hall which was followed up this year and the same opinion awarded.

Implementation of Recommendations

16. The audit service now only tracks the implementation of essential and important recommendations. Recommendations already in service plans or advisory recommendations are still used to inform individual audits but are not included in the end of year statistics.
17. At the end of last year there were 2 essential and 40 important recommendations which service managers had not reported as being implemented. During 2011/12 56 new recommendations were added to the database or were reinstated after an audit follow up. This gave 98 recommendations to be implemented.
18. Self assessments have been completed by services between January and May 2013 which has indicated that 59 (60%) of these 98 recommendations have now been reported as implemented or are no longer required. Of the remaining 39, only 3 were essential recommendations, and progress had been made on a further 14 (14%).
19. During the year the internal audit teams followed up 100 of the recommendations previously reported as implemented or no longer required. 29% of them were reinstated or superseded by new recommendations.

Errors on Income or Expenditure

20. No uncorrected errors in income collection or expenditure were again found during testing in audits this year. The car parking audit did highlight a number of variances for income collected but these related more to over collection due to missing machine readings.

Breaches of Council Policies

21. These results are summarised in [Appendix D](#) which shows 60% non policy compliance found this year compared to 22% recorded last year, although this is based on the testing of fewer rules (15). The highest number of non-compliance with rules (5) was in relation to purchasing and in particular missing evidence of market testing.
22. The way this information is produced will be changed from 2013/14 to be based on one targeted policy compliance audit which has been included in the plan. As part of the project to update Financial Regulations we will be identifying the key rules which we want to test as part of this audit in order to provide a more focused measure of policy compliance aimed at the top risks.

HEAD OF AUDIT OPINION

23. Using the information outlined above, in the opinion of the Head of Audit and Assurance, the Council again had good systems of internal control for the year 2012/13 which were working satisfactorily, despite the economic climate and reduction of resources available to operate those systems of control. The council is striving to identify and focus its resource on those controls which represent a genuine high risk rather than to meet general best practice guidance in all areas.
24. There is generally good awareness amongst managers about their top risks and actions are agreed to address weaknesses identified through the management or audit processes. How quickly the actions are fully implemented can vary given the competing demands and reduced resources available to services, but priority is placed on any essential actions identified.
25. There has been a slight downward trend in opinions being awarded in the year. Two new opinions of Limited Assurance were given in relation to Data Protection and Off Street Parking. Action plans have been agreed with managers to tackle the issues raised which will be followed up in 2013/14.
26. There is also one outstanding opinion of Limited Assurance in relation to Ferneham Hall (Hirings and Procurement) which was followed up in 2012/13 but the opinion was not changed.
27. This opinion is given based on the audits that have finished, and will be updated if the audits currently in progress gives rise to the need to change the opinion.

AUDIT SECTION PERFORMANCE

Compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Standards

28. An annual assessment of the service's compliance with the 2006 CIPFA internal audit standards has been undertaken. There were 207 standards across 11 subjects.

29. A summary of the current levels of compliance is provided as [Appendix E](#) which concludes that the Audit team was considered to be 97.9% compliant across all the standards, the same as last year. The areas where some minor weaknesses are still found relate to:
- (a) Establishing protocols for joint working with other Councils;
 - (b) Finalising the document retention policy; and
 - (c) Maintaining the audit manual;
 - (d) Assessing and documenting the skills needed by the service.
30. These were on the team's master list of actions to be tackled as time allows during the year. However, given the high level of compliance already with the standards they were not considered priority actions and from 01/04/13 the standards have been replaced by the Public Sector Internal Audit Standards.
31. There are 105 new standards and compliance with these will be assessed during 2013/14 to feed into the new Internal Audit Strategy. It is a requirement of the new Standards that external assessments are conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. We will be reviewing how other councils are demonstrating compliance with this requirement without incurring any further costs to the service.

Local Performance Indicators

32. The performance of the team in relation to all the other local indicators set is summarised in [Appendix F](#). Key targets, such as the completion of the audit plan and providing work that the external auditors can place reliance on, have been met again this year.
33. The indicators are generally comparable to last year except for a dip in the Client Satisfaction scores from 84% to 73%. This is based on 6 returns as opposed to 10 last year. The issues being raised are the timing of the audits and impact on key officers affected by more than one audit, the ease of understanding of the reports, and practicality of recommendations made in relation to the true nature of the risk. These are discussed regularly with the audit contractor and action taken as appropriate.

CONCLUSION

34. This annual audit report contains the information required by the CIPFA Code of Practice. The opinion offered within it, is that the Council continues to have a good internal control environment

Appendices:

- A. Summary of the Completion of the Original 2012/13 Audit Plans
- B. Findings from Audits Completed in 2012/13
- C. Current Spread of Grades in Strategic Audit Plan
- D. Breaches Found Within Audits Completed in 2012/13
- E. Assessment of Compliance with revised CIPFA Audit Standards 2006
- F. Comparison of Local Performance Indicators for last 5 years

Background Papers:

CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

Reference Papers:

Report to Audit Committee on 28/06/12 on Head of Audit's Annual Report 2011/12

Enquiries:

For further information on this report please contact Alan Gerrard, Principal Audit and Assurance Officer (Ext 4347).

SUMMARY OF THE COMPLETION OF THE ORIGINAL & REVISED 2012/13 ANNUAL AUDIT PLANS

Audit Type	No of Audits Originally Planned	No. of Audits Added	No. of Audits Removed	Revised No. of Audits	No. of Audits Carried Out	% Delivery	Notes
Fundamental Systems	10			10	10	100%	Payroll audit at draft report issued stage.
Corporate and Partnership Audits	2			2	2	100%	
Governance Assurance	1			1	1	100%	Whistle-blowing audit at draft report stage.
Risk Management	1		1				Risk Management audit deleted from the plan due to the recent update to the Council's Risk Management Policy such that processes would not be fully embedded at the time of audit.
Contract and other Specialist audit	2			2	1	50%	Legal Services Contract audit not yet started.
Service audits	11		2	9	9	100%	Garden Waste audit deleted from plan at manager's request and due to low risk. Miscellaneous Democratic Services audit postponed to 2013/14 at manager's request to cover the new electronic information system being implemented to manage committee meetings. CSC Process audit (Disabled Parking) still in progress
Computer audits	4	2	1	5	5	100%	Remote Access, Third Party Access and Mobile Working audit postponed to 2013/14 at the manager's request. Geographical Information System audit and Follow Up of IT Recommendations added to the plan.
Follow Ups	0	2		2	2	100%	Follow up of Ferneham Hall Limited Assurance report and cross cutting follow up audit added to the plan.
TOTALS	31	4	4	31	30	97%	

Findings from Audits Completed in 2012/13

Audit Title	Income or Expend errors found Number (Value)	No. of policy rules tested without breaches	% Recs implemented (number tested)	Previous Opinion Given	New Opinion Given	Findings Overview (Direction of Travel /Opinion)
Fundamental Systems						
Treasury Management	None	None Tested	None Tested	Strong	Strong	↔ ☺☺
Main Accounting, System & Budgetary Control	None	1/1	100% [1]	Strong	Strong	↔ ☺☺
Housing Benefits	None	None Tested	None Tested	Strong	Strong	↔ ☺☺
Ordering and Payment of Invoices [Creditors]	None	None Tested	67% [3]	Reasonable	Strong	↑ ☺☺
Electronic Expenses	None	None Tested	No Previous Audit	No Previous Opinion	Strong	N/A ☺☺
<i>Payroll</i>	<i>None</i>	<i>None Tested</i>	<i>0% [1]</i>	<i>Reasonable</i>	<i>Reasonable</i>	↔ ☺
Invoicing and Collection of Income Receivable [Debtors]	None	None Tested	33% [6]	Reasonable	Reasonable	↔ ☺
Council Tax & NNDR	None	None Tested	100% [2]	Reasonable	Reasonable	↔ ☺
Housing Rents	None	None Tested	0% [3]	Reasonable	Reasonable	↔ ☺
Cash Collection and Banking	None	None Tested	100% [1]	Strong	Reasonable	↓ ☺
Corporate & Partnership Audits						
Corporate Health and Safety	None	1/1	100% [1]	No Previous Opinion	Reasonable	N/A ☺
Capital Projects Management	None	None Tested	No Previous Audit	No Previous Opinion	Reasonable	N/A ☺
Governance Assurance						
<i>Whistle Blowing</i>	<i>None</i>	<i>None Tested</i>	<i>No Previous Audit</i>	<i>No Previous Opinion</i>	<i>Strong</i>	<i>N/A</i> ☺☺
Contract and Specialist Audits						
Responsive Repair Works	None	None Tested	0% [1]	No Previous Opinion	Reasonable	N/A ☺

Audit Title	Income or Expend errors found Number (Value)	No. of policy rules tested without breaches	% Recs implemented (number tested)	Previous Opinion Given	New Opinion Given	Findings Overview (Direction of Travel /Opinion)	
Service Audits							
Postal Services	None	None Tested	100% [1]	Strong	Strong	↔	😊😊
Commercial Estates	None	None Tested	None Tested	Strong	Strong	↔	😊😊
Procurement Cards	None	None Tested	None Tested	Reasonable	Reasonable	↔	😊
Pest Control	None	2/2	20% [5]	Reasonable	Reasonable	↔	😊
Planning Enforcement	None	None Tested	None Tested	No Previous Opinion	Reasonable	N/A	😊
Community Development - Safeguarding	None	None Tested	No Previous Audit	No Previous Opinion	Reasonable	N/A	😊
Disabled Facilities Grants	None	0/1	No Previous Audit	No Previous Opinion	Reasonable	N/A	😊
Off Street Parking	Variances found	0/1	100% [3]	Reasonable	Limited	↓	😐
Computer and Information Audits							
Follow up of IT Recommendations	None	None Tested	100% (10)	N/A	N/A	N/A	😊😊
Telecommunications	None	None Tested	67% [6]	No Previous Opinion	Reasonable	N/A	😊
Geographical Information System	None	None Tested	No Previous Audit	No Previous Opinion	Reasonable	N/A	😊
Network Security and Infrastructure	None	None Tested	0% [2]	Strong	Reasonable	↓	😊
Data Protection	None	None Tested	50% [4]	Reasonable	Limited	↓	😐
Follow Ups							
Follow up of various Recommendations	None	None Tested	43% [14]	N/A	N/A	N/A	😐
Ferneham Hall Follow up	None	2/8	0% [6]	Limited	Limited	↔	😐

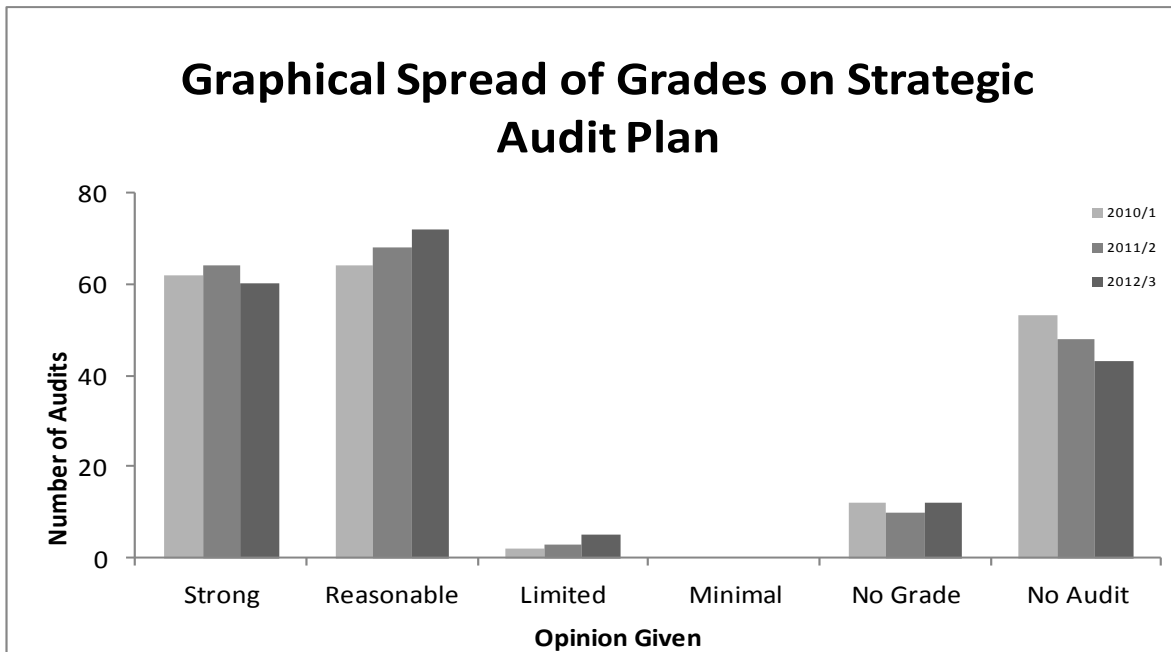
The reports for those audits in italics are still being finalised.

Current Spread of Opinions across the Whole Strategic Audit Plan as at June 2013

Category of Audit	Strong / Very Good / Good	Reasonable / Satisfactory	Limited / Fair	Minimal / Poor	No Opinion	No Audit	Total
Fundamental	6	6					12
Corporate & Partnership	5	4			4	11	24
Contract & Specialist Service	5	2	2		2	2	13
Computer & Information	32	37	2		5	27	103
	12	23	1		1	3	40
Total 2012/13	60	72	5		12	43	192
Total 2011/12	64	68	3		10	48	193
Total 2010/11	62	64	2		12	53	193

Notes:

The “no opinion” column shows audits where a piece of work has been carried out in the past but the nature of the work was such that an opinion wasn’t appropriate. The “no audit” column shows audits that have not been carried out in the last 10 years or are new to the plan.



Level of Breaches of Policy Found Within Audits Completed

Nature of Policy	2012/13		2011/12		2010/11	
	No of Policy Rules Tested	Number of tests where breaches of rules found	No of Policy Rules Tested	Number of tests where breaches of rules found	No of Policy Rules Tested	Number of tests where breaches of rules found
Income Collection	6	3	25	2	4	2
Asset Control			4	1	2	2
Purchasing	6	5	8	2	5	5
Payments to Staff			6	3	1	1
Data Security			0	0	1	1
Accounting	1		2	2	4	4
Health & Safety	2	1				
TOTAL	15	9 (60%)	45	10 (22%)	17	15 (88%)

APPENDIX E

Analysis of Compliance with the CIPFA Audit Standards in 2012/13
 (Those standards where we have improved are highlighted)

Standard Heading	No of Elements	% Compliance 2008-9	% Compliance 2009/10	% Compliance 2010/11	% Compliance 2011/12	% Compliance 2012/13
1. Scope of Internal Audit	25	99	99	99	99	99
2. Independence	17	98	98	98	98	98
3. Ethics for Internal Audit	13	98	100	100	100	100
4. Audit Committees	14	100	100	100	100	100
5. Relationships	15	88	92	95	95	95
6. Staffing, Training & CPD	11	75	75	75	84	84
7. Audit Strategy & Planning	21	100	100	100	100	100
8. Undertaking Audit Work	19	96	96	96	96	96
9. Due Professional Care	12	100	100	100	100	100
10. Reporting	33	100	100	100	100	100
11. Performance, Quality and Effectiveness	27	98	98	98	98	98
TOTAL	207	96.8%	97.2%	97.4%	97.9%	97.9%

APPENDIX F

Comparison of Local Performance Indicators for last 5 years

Indicator	Comments	Direction	Performance	2012/13	2011/12	2010/11	2009/10	2008/09
External Audit Opinion/ Use of Resources score	No reports received from external audit which include an opinion on internal audit. It is assumed that problems with the service would be highlighted by exception. Verbal feedback was given that reliance was placed on the work of the service.	↔	😊	No opinion given	No opinion given	No opinion given	No opinion given	Satisfactory / 3
% of Audit Plan Completed	The 90% target has been achieved.	↔	😊	97%	97%	97%	93%	98%
% of reports finalised by time of Head of Audits Report	The amount of non finalised work being relied on in the Annual Opinion has decreased compared to last year.	↑	😊	87% (31)	80% (35)	87% (38)	65% (40)	69% (31)
% of Client Satisfaction	This performance is below the target set of 80%.	↓	😐	73% (6)	84% (10)	83% (14)	84% (14)	87% (35)

DRAFT