

**INTERNAL AUDIT ANNUAL REPORT AND OPINION 2013/14**

To: Corporate Governance & Finance Committee

Date: 21st July 2014

From: Trevor Bowd, Principal Auditor

[P43]

1.0 **ISSUE**

1.1 To report on the work of Internal Audit for the financial year 2013/14.

2.0 **RECOMMENDATION**

2.1 That the Committee note the content of the Internal Audit Annual Report and Opinion attached as Appendix 1.

3.0 **BACKGROUND/OPTIONS**

3.1 To conform with best practice and the Public Sector Internal Audit Standards, the Internal Audit Annual Report and Opinion informs those charged with governance of the overall adequacy and effectiveness of the internal control environment. This opinion also feeds into the Council's Annual Governance Statement.

4.0 **ARGUMENTS/CONCLUSIONS**

4.1 The attached report (Appendix 1) demonstrates how the work of Internal Audit is planned, recorded and controlled in a way that allows our external auditors to determine the extent and quality of audit coverage during the year, and therefore enable them to place reliance on Internal Audit's work as part of the annual audit process.

5.0 **FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT**

5.1 There are no additional financial implications arising from this report. An Equality Impact Assessment is not required.

6.0 **APPENDICES**

6.1 Appendix 1 – Internal Audit Annual Report

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**Background Documents****Location****Contact Officer**

Public Sector Internal Audit Standards.

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Internal Audit Charter.

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Individual Audit Reports.

**EAST CAMBRIDGESHIRE DISTRICT COUNCIL**

**INTERNAL AUDIT ANNUAL REPORT FOR THE FINANCIAL YEAR 2013/14**

**INTRODUCTION**

The Public Sector Internal Audit Standard (PSIAS) which came into effect from 1<sup>st</sup> April 2013 defines Internal Audit as:

“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.”

The PSIAS require the Chief Audit Executive (Principal Auditor) to deliver an annual Internal Audit Report and Opinion that can be used to inform the Annual Governance Statement. Specifically the annual report should incorporate the following:-

- details of the scope of the work undertaken and the time period to which the opinion refers, together with the disclosure of any restrictions in the scope of that work)
- a summary of the audit work from which the opinion is derived, including details of the reliance placed on the work of other bodies
- an opinion on the overall adequacy and effectiveness of the council’s control environment
- disclosure of any qualifications to that opinion, together with the reasons for that qualification
- details of any issues the Principal Auditor judges are of particular relevance to the preparation of the Annual Governance Statement
- a statement of conformance with the PSIAS and the results of the Internal Audit Quality Assurance and Improvement Programme

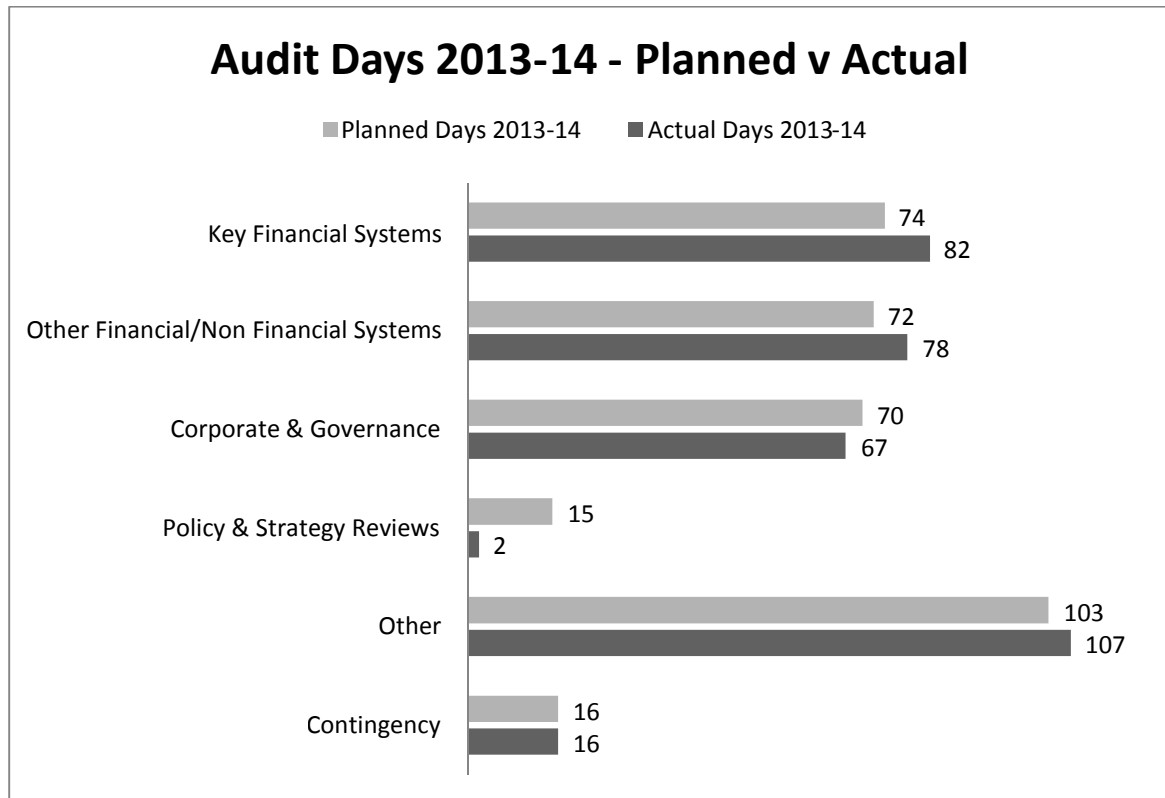
**SUMMARY OF WORK UNDERTAKEN**

**Resources**

The Internal Audit function is resourced by a mixture of in-house provision and the procurement of additional resources from the West Suffolk Internal Audit Section (Forest Heath District Council & St Edmundsbury Borough Council).

The Internal Audit plan for the financial year 2013/14 was approved by the former Finance & Governance Committee in March 2013 providing a total of 350 days, including unproductive days for annual leave etc. The plan is not a static document and during the year it was amended as demands on the service changed. A total of 352 days were completed during the financial year, two days in excess of the original plan.

The following chart provides a summary comparison between planned and actual audit days for the financial year 2013/14.



A detailed breakdown of planned and actual time spent on individual audit areas is included at Appendix A. For information, this also shows the time spent in 2012/13 where the same audit was undertaken.

### **Individual Audit Reviews**

Much of the planned audit work undertaken each year is structured to gain assurance on the adequacy of internal controls, in particular those areas classified as “core audits”.

Essentially these are the main financial systems and include areas such as Council Tax, Housing Benefit, Payroll and Procurement. These systems are reviewed on an annual basis and are planned to be completed late in the year to enable testing to cover as much of the financial year as possible. In addition, other audit assignments are undertaken on a rolling cyclical programme, the frequency determined by an assessment of risk and available resources.

### **Other Work**

In addition to the completion of the above reviews Internal Audit has been involved in work in a number of other areas where a formal audit report is often not the end product however significant audit resource is used.

**Counter Fraud** – The Principal Auditor has continued to act as the key contact for the Audit Commission’s National Fraud Initiative which is a mandatory exercise carried out every two

years. Work has also continued to raise awareness of fraud across the Council principally through the issue of six monthly Fraud Awareness Newsletters which are circulated to all staff and Members. Internal Audit is also heavily involved in setting up a local fraud hub.

Whilst the prevention and detection of fraud and corruption is ultimately the responsibility of management, Internal Audit is aware of its own responsibilities in this area. During the year Internal Audit has undertaken one independent investigation into poor management practice (Travel & Overtime Claim Investigation).

**Corporate & Governance** – The Principal Auditor is responsible for undertaking a number of reviews during the year covering both corporate and governance issues. These include the annual review of the local Code of Corporate Governance and production of the Annual Governance Statement. The Principal Auditor is also responsible for maintaining the Council's Operational Risk Register.

**Rating Review** – Internal Audit has co-ordinated a review of the rateable values of Council owned business properties using a specialist firm to make appeals to the Valuation Officer against the 2010 Rating List. This follows a similar exercise against the 2005 Rating List which was successful in obtaining refunds totalling just over £130,000, which was reported in the 2010/11 Internal Audit Annual Report. Work is still in progress to finalise some of the appeals but to date refunds received and future savings from reductions in rateable values to the end of 2016/17 amount to almost £125,000.

## **AUDIT OPINION ON THE INTERNAL CONTROL ENVIRONMENT**

Internal Audit, along with other assurance process within the Council, has a statutory obligation to provide assurance from the work they undertake in respect to the internal control systems operating within the Council. The assurances gained from the work of Internal Audit feed into the annual review of internal control, which then feeds into the Annual Governance Statement, which is published alongside the annual Statement of Accounts. Each audit review is given one of four levels of assurance (Full, Significant, Limited or No) dependent on an evaluation of both of the controls in place and the testing of the controls.

Appendix B shows in detail the audit reports issued during the financial year 2013/14, the number of recommendations made and an opinion on the level of assurance. In addition, for information, where the audit has been previously undertaken, the "Direction of Travel" column shows where the level of assurance has improved, remained the same or has fallen between audits. Based on an assessment of the levels of assurance given for each area audited, an overall opinion of the internal control environment is then determined.

The following tables summarise the levels of assurance achieved as a result of the Internal Audit reviews completed (final reports issued) during the financial year 2013/14 and the number of recommendations made. For information, comparative data for the financial year 2012/13 is provided.

### Summary of Levels of Assurance

Assurance Level	No. of Audits 2013/14	% of Total	No of Audits 2012/13	% of Total
FULL ASSURANCE	1	6%	0	-
SIGNIFICANT ASSURANCE	14	88%	13	86%
LIMITED ASSURANCE	1	6%	1	7%
NO ASSURANCE	0	-	1	7%
<b>Total</b>	<b>16</b>	<b>100%</b>	<b>15</b>	<b>100%</b>

### Summary of Recommendations Made

	No. 2013/14	% of Total	No. 2012/13	% of Total
HIGH PRIORITY	8	9%	19	23%
MEDIUM PRIORITY	59	66%	49	60%
LOW PRIORITY	23	25%	14	17%
<b>Total</b>	<b>90</b>	<b>100%</b>	<b>82</b>	<b>100%</b>

#### **Internal Audit Opinion**

**Whilst no assurance can be absolute, on the basis of the work undertaken by Internal Audit during the financial year 2013/14, and the implementation by management of the recommendations made, I can give significant assurance that the systems of internal control within the areas examined were operating satisfactorily.**

**Trevor Bowd  
Principal Auditor  
Julye 2014**

Appendix B provides in summary format details of those audit reports issued where the level of assurance given was either "Limited Assurance" or "No Assurance".

#### **QUALIFICATIONS TO THE OPINION**

Internal Audit has had unrestricted access to all areas and systems across the Council, and has received appropriate co-operation from officers and Members.

#### **IMPLEMENTATION OF AUDIT RECOMMENDATIONS**

The primary purpose of Internal Audit reporting is to communicate to management, information that provides an independent and objective opinion on the risk and control

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environment. Management has responsibility for ensuring that recommendations arising from individual reviews are implemented. Recommendations are followed up to ensure they have been implemented, and this is achieved either by review as part of the following years audit if one is undertaken, or as part of a specific follow up review if this is not the case.

Follow up of the audit recommendations made in the financial year 2012/13 has identified that good progress has been made to implement the agreed actions.

## **PERFORMANCE**

There are a number of performance measures and targets that relate to the delivery of the audit plan. These include the percentage of productive time, the total number of days compared with the annual plan, and the percentage of audits completed within the allocation.

## **QUALITY ASSURANCE AND REVIEW**

The work of Internal Audit is controlled by the Principal Auditor to ensure that a continuous and effective level of performance is maintained. The work of auditors from West Suffolk Internal Audit is reviewed by their Audit Manager, with a sample being reviewed by the Principal Auditor before being “signed off” as complete. The Council’s External Auditors also review a sample of audit files each year to ensure they can place reliance on the work of Internal Audit.

## **COMPLIANCE WITH PROFESSIONAL STANDARDS**

The service is required to comply with proper practice as defined by the PSIAS. The measured level of compliance is based on a self-assessment against a check list of 334 items. The level of compliance and associated action plan to address gaps in compliance are reported separately to this Committee.

## **CONCLUSION**

As with previous financial years, Internal Audit continues to provide significant assurance that overall the systems of internal control within the Council are operating satisfactorily and that management is taking appropriate action to implement the improvements recommended as a result of individual audit reviews.

Trevor Bowd  
Principal Auditor  
July 2014

**APPENDIX A – INTERNAL AUDIT DAYS PLANNED v ACTUAL 2013/14 AND COMPARATIVE ACTUALS FOR 2012/13 WHERE SIMILAR REVIEW UNDERTAKEN**

<b>Audit</b>	<b>Planned Days</b>	<b>Actual Days</b>	<b>2012/13 Actual</b>
<b>Key Financial Systems</b>			
Bank Reconciliations	5	5	5
Council Tax	10	13	10
Creditors	10	10	10
Debtors	5	5	6
Housing Benefit	15	18	15
NNDR	10	12	10
Payroll	10	10	10
Treasury Management	5	5	1
Previous Year Key Financial Audits Completion	4	4	15
<b>Total</b>	<b>74</b>	<b>82</b>	<b>82</b>
<b>Other Financial/Non Financial Systems</b>			
Community Grants	7	8	-
Community Infrastructure Levy	10	1	-
Data Transparency	5	0	-
E-Space Income	5	7	-
Follow Up Reviews	5	5	5
Homelessness Review Follow Up	15	6	-
Income Controls	10	11	-
Members Allowances	5	6	-
Rating Review	0	3	1
Reconciliations	0	12	-
Tourist Information Centre	5	6	-
Travel & Subsistence	5	6	
Travel & Overtime Investigation	0	7	
<b>Total</b>	<b>72</b>	<b>78</b>	<b>92</b>
<b>Corporate &amp; Governance Review Work</b>			
Annual Governance Statement	10	11	9
Annual Audit Report & Opinion	5	5	4
Code of Corporate Governance	10	10	8
Corporate Working Groups	5	8	3
Counter Fraud	10	13	10
Effectiveness of Internal Audit	5	5	4
National Fraud Initiative	10	4	13
Public Sector Internal Audit Standards	5	5	-
Risk Management	10	6	4
<b>Total</b>	<b>70</b>	<b>67</b>	<b>65</b>
<b>Policy &amp; Strategy Reviews</b>			
Anti-Fraud & Corruption Strategy	5	0	-
Anti-Money Laundering Policy	5	2	5
Risk Management Strategy	5	0	-
<b>Total</b>	<b>15</b>	<b>2</b>	<b>5</b>
<b>Other (Leave, Management etc)</b>	<b>103</b>	<b>107</b>	<b>100</b>
<b>Contingency</b>	<b>16</b>	<b>16</b>	<b>15</b>
<b>Grand Totals</b>	<b>350</b>	<b>352</b>	<b>359</b>



**APPENDIX B – AUDIT REPORTS ISSUED 2012/13**

Audit Report	Audit Area	Level of Assurance	Recommendations Made			Direction of Travel
			High	Medium	Low	
2013/01	Markets Follow Up Review	Significant	0	0	0	↔
2013/02	Car Parking Income Follow Up Review	Significant	0	0	0	↔
2013/03	Community Grants	Significant	2	1	1	↑
2013/04	Tourist Information Centre	Significant	0	1	1	↑
2013/05	E-Space Income	Significant	0	2	0	↑
2013/06	Members Allowances & Expenses	Significant	0	2	0	↔
2013/07	Travel & Subsistence	Significant	0	2	0	↔
2013/08	Mileage & Overtime Claim Investigation	Limited	2	2	1	n/a
2013/09	ARP Benefits Review	Significant	0	15	5	↔
2013/10	ARP Council Tax Review	Significant	0	18	10	↔
2013/11	ARP Non-Domestic Rates	Significant	4	14	4	↔
2013/12	Bank Reconciliations	Significant	0	1	0	↔
2013/13	Creditors	Significant	0	1	0	↔
2013/14	Payroll	Full	0	0	0	↑
2013/15	Debtors	Significant	0	0	1	↔
2013/16	Treasury Management	Significant	0	0	0	↔
	<b>Totals</b>		<b>8</b>	<b>59</b>	<b>23</b>	

Direction of Travel	
↔	No change
↑	Improved
↓	Worse

## APPENDIX C

### AUDIT REPORTS ISSUED WITH AN OPINION OF LIMITED OR NO ASSURANCE

<b>Report Number</b>	<b>2013/08 – Mileage &amp; Overtime Claim Investigation</b>		
<b>Level of Assurance</b>	<b>Limited</b>		
<b>Recommendations Made</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
	<b>2</b>	<b>2</b>	<b>1</b>

#### **Introduction**

This review was triggered by an analysis of mileage claimed by individual employees as part of the planned review of Travel and Subsistence claims. In the case of one particular employee the high level of mileage being claimed was considered to be excessive. Examination of payroll information also identified a significant amount of overtime being paid to the same employee.

#### **Scope and Objectives**

An exercise was undertaken to match the mileage claims submitted with the overtime claims. In addition interviews were held with key staff to ascertain the processes in place to monitor both mileage and overtime.

#### **Executive Summary**

The overall conclusion was that the initial concerns identified by Internal Audit were resolved as a result of discussions with key members of staff. The investigation did however highlight a number of areas where controls and checks needed to be put in place or enhanced to enable greater assurance to be placed on the accuracy of claims submitted for both mileage and overtime.

#### **Progress Implementing Recommendations**

The implementation of the recommendations made in the report will be followed up during the financial year 2014/15.