

Bath & North East Somerset Council			
MEETING:	Corporate Audit Committee		
MEETING DATE:	20th May 2013	AGENDA ITEM NUMBER	
TITLE:	Internal Audit Annual Report - Outturn 2012/13 & Annual Plan 2013/14		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – Audit & Risk Outturn 2012/13			
Appendix 2 - Audit & Risk Dashboard Quarter 4 2012/13			
Appendix 3 – Internal Audit Annual Plan 2013/14			

1 THE ISSUE

1.1 This is an annual report produced to detail the work undertaken by Internal Audit during 2012/13 and its plan for 2013/14.

2 RECOMMENDATIONS

2.1 The Corporate Audit Committee is asked to:

- a) Note the summary of audit work during 2012/13 (Appendices 1 & 2)
- b) Approve the Internal Audit Plan for 2013/14 (Appendix 3)
- c) Request an update on the progress to a partnership model of service delivery

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications relevant to this report.

4 THE REPORT

4.1 Internal Audit Work Carried out in 2012/13 (Appendix 1)

4.2 In the report presented to this Committee on 4th December 2012, it was reported that during the first half of the financial year 43% of the plan had

been completed or was work in progress. As at the 31st March 2013, this figure had increased to 80%. The remaining 20% of the originally planned work has been cancelled / rescheduled because it has either been replaced with unplanned work or it wasn't possible to complete based on the reduction in audit days available due to the redeployment of one of the Audit Team Managers to the Procurement Team.

4.3 In relation to the 'unplanned' work it is worthy of note that 111 days were spent on just three investigations. Work has been completed for two of the investigations while the third is on-going.

4.4 In the past two years we reported high sickness absence figures based on two members of staff having to undergo surgery. The loss of productive days through sickness for 2012/13 was in line with expected levels. For the nine members of staff working in the Audit & Risk Team during the year 42 days were lost to sickness, an average of 4.7 days each person.

4.5 The number of days during 2012/13 spent on training / professional study totalled 28, just below that allocated. During the year we had three members of staff actively studying for professional Internal Audit qualifications. I'm pleased to report that one Senior Auditor successfully completed the Chartered Institute of Internal Auditors – Information Technology Auditing Certificate.

4.6 Appendix 2 provides a 'dashboard' view of adopted high level performance indicators. For comparison reasons the results of the last two years are recorded below:

High Level Performance Indicator	As at 31st March 2012	As at 31st March 2013
% of Audits completed within time allocated	84%	65%
% of Services which rate Internal Audit as Excellent / Good	100%	97%
% of recommendations agreed (based on management response recorded in Final version of Audit Reports issued).	99%	99%
% of recommendations implemented (based on findings of 'Follow-Up' Reviews completed and reported to management).	89%	65%

4.7 In addition to the above, an analysis of work carried out during the financial year identified:

1) 79% of audit reviews assessed specific council activity at Assurance Level 3 to 5 ('Adequate' or 'Excellent'), 18% at Assurance Level 2 ('Weak') and 3% at Assurance Level 1 ('Poor').

2) The Assurance Level 1 ('Poor') review was in relation to the internal control framework related to Systems Administration Management & Control – Privileged Users. Management agreed to implement all 7 of the Audit recommendations and implementation of these recommendations will be 'followed-up' in July 2013.

3) For the 7 audits assessed at Assurance Level 2 ('Weak'), management have agreed to implement all the Audit recommendations.

4) 22 'Follow-Up' reviews were carried out in 2012/13. 6 of these were in relation to Audit Reviews awarded a 'Poor' or 'Weak' Assurance Level. For these 6 'Follow-Ups' 67% of audit recommendations had been implemented by the 'agreed' implementation date. For those recommendations still to be implemented, management have agreed revised implementation dates.

4.8 In addition to the work recorded in Appendix 1 the function provides a 'Responsible Officer' (in effect, a basic Internal Audit service) service to 9 Academy schools. This has necessitated working in partnership with the School and their External Auditors.

4.9 Internal Audit Annual Plan 2013/14 (Appendix 3)

4.10 A summary version of the Audit Annual Plan for 2013/2014 is recorded as an Appendix to the Annual Plan document. The plan has been prepared using a number of factors to risk assess identified auditable activities. The factors used are -

1) 2011/12 Annual Governance Issue or directly linked to Corporate Risk Register (December 2012).

2) Exposure to Financial Irregularity (Control Environment / Corruption).

3) Time since last audit review.

4) Assurance Level last audit.

5) Business Continuity Risk (loss of function impacting on provision of critical services).

6) Expenditure (not including employee costs).

7) Income

8) Inherent risk (a multiplier based on taking into account 'other' risks and compensating controls such as review by external agencies / inspectorates).

4.11 Based on productive days available (following a deduction of days for leave, training, admin / management, and Academy 'Responsible Officer' visits) the plan records a total of 61 discrete Internal Audit Reviews.

4.12 In addition to completing the Internal Audit Reviews the Audit & Risk Team will -

- Provide support to the corporate governance framework within the Council including completing the Annual Governance review work required to publish the Council's Annual Governance Statement;
- Complete 'Follow-up' reviews to verify the implementation of Internal Audit Review recommendations.
- Provide support to the Council's risk management framework including maintaining the Corporate Risk Register;
- Provide advice on systems of internal control including Council policies and procedures. This is particularly important when systems and processes are being developed or changed;
- Provide support to Services on carrying out investigations in relation to financial irregularities. This may require Audit & Risk staff to take on the Investigating Officer role in compliance with the Council's disciplinary procedures.

4.13 Formal Opinion on Internal Control Framework –

Comments of the Divisional Director for Risk and Assurance

4.14 Despite a small number of financial irregularity investigations it is pleasing to note that within the year there were no fundamental system failures and it is my opinion that at this current time the Council's Internal Control framework and systems to manage risk are satisfactory.

4.15 It is however clear that with increased pressure on budgets, choices on the degree of internal control have to be made and the level of risk being accepted by the organisation is imperceptibly rising. This in itself is not a cause of undue concern at this time as the risk appetite level of Local Authorities is broadly low. Therefore applying a degree of flexibility to what is an acceptable level of risk is a sensible course of action to ensure the organisation's priorities continue to be delivered.

4.16 This does however place increased pressure on the Internal Audit function to adapt to this changing framework and also provide the right balance of scrutiny and support to management. Ensuring value from the function as well as providing a strong independent voice is a critical check in establishing successful organisational governance. This becomes important as structures change and indeed the Resources Directorate is currently consulting on a new structure which would see current reporting lines change to a lower level and issues of independence challenged. These issues will need to be reviewed in light of new Public Sector standards for Internal Audit which have come into force from April 2013.

4.17 As previously reported to the Committee a 30% reduction to audit resources has been implemented over the last 2 years and this does place the function at a relatively basic level to cope with a fast changing organisation. Indeed as highlighted earlier, instances of long term sickness and secondments reduce the resilience and capability of the team significantly. Therefore whilst I remain confident that an in-house service can still deliver an effective function in the immediate future, the long-term prognosis is unclear.

4.18 Previous reports to the Audit Committee have recommended a local authority partnership form of delivery, especially one organised and delivered locally within the region as the most appropriate to deliver a sustainable future. Discussions remain ongoing with a number of parties with agreement potentially close and it is therefore recommended that an update report be given to the next committee to re-confirm the path currently pursued as we are now at a critical stage.

4.19 Finally the support of the Audit Committee remains vital to effective corporate governance and I would like to thank all the members of the committee for their input and guidance over the last 12 months.

5 RISK MANAGEMENT

5.1 The preparation of the audit plan is carried out following a risk assessment using a number of factors. Commentary and opinion in relation to past performance has used the outcome of audit and other inspection work to inform the risk assessment and there is nothing significant to report.

6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report.

7 CONSULTATION

7.1 The report was distributed to the S151 Officer for consultation.

Contact person	Jeff Wring (01225 477323) Andy Cox (01225 477316)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

