

Bath & North East Somerset Council			
MEETING:	Corporate Audit Committee		
MEETING DATE:	13th May 2014	AGENDA ITEM NUMBER	
TITLE:	Internal Audit Annual Report – 2013/14		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – Internal Audit Dashboard Quarter 4 2013/14			
Appendix 2 – Internal Audit Outturn 2013/14			

1 THE ISSUE

1.1 This is an annual report produced to detail the work undertaken by Internal Audit during 2013/14.

2 RECOMMENDATIONS

2.1 The Corporate Audit Committee is asked to:

a) Note the summary of audit work completed during 2013/14 and performance of the Internal Audit Team (Appendices 1 & 2).

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 2013/14 (Appendix 1 & 2)

4.2 Plan Performance

4.3 The Committee received an update report on the first six months Internal Audit performance at its December meeting. At that time it was reported that during the first half of the financial year 40% of the plan had been completed or was work in progress with a prediction that approximately 85% of the plan would be completed by the end of the year.

4.4 As at the 31st March 2014, this figure had increased to 86% and whilst this is not of concern it is still disappointing that a higher figure was not achieved. Key reasons for not reaching a higher level are as follows –

- 12% of unplanned work was required, i.e. Investigations and high priority consultancy work;
- A number of reviews were cancelled or deferred for various operational reasons;
- There was a three month lag between a number of staffing vacancies which occurred in the first quarter of the year and their replacement by an external arrangement with the South West Audit Partnership.

4.5 Wider Performance

4.6 Appendix 1 provides a 'dashboard' view of adopted high level performance indicators for quarter 4. For comparison reasons the results of the last two years are recorded below:

High Level Performance Indicator	As at 31st March 2013	As at 31st March 2014
% of Audits completed within time allocated	65%	87%
% of Services which rate Internal Audit as Excellent / Good	97%	100%
% of recommendations agreed (based on management response recorded in Final version of Audit Reports issued).	99%	99%
% of high / critical risk recommendations implemented (based on findings of 'Follow-Up' Reviews completed and reported to management).	65%	83%

% of days spent on formal professional training	2%	2%
% of days sickness as percentage of total days	3%	3%

4.7 Internal Control Framework Analysis

In addition to the above an analysis of the results of audit work - i.e. the state of the internal control environment - was as follows:

- 93% of audit reviews assessed the control framework at Assurance Level 3 to 5 ('Adequate', 'Good' or 'Excellent');
- 5% of audit reviews were assessed at Assurance Level 2 ('Weak'). This represented two audit reviews and management have agreed to implement all the audit recommendations;
- 2% of audit reviews were assessed at Assurance Level 1 ('Poor').

This review was in relation to the findings related to a review of Highways Structures and management have agreed to implement all 14 of the audit recommendations. This review will be followed up in the first quarter of 2014/15.

- 41 'Follow-Up' reviews were carried out in 2013/14;
- 7 'Follow-Up' reviews were in relation to Audit Reviews awarded a 'Poor' or 'Weak' Assurance Level.

For these reviews 96% of audit recommendations had been implemented by the 'agreed' implementation date. For those recommendations still to be implemented, management have agreed revised implementation dates and no significant issues are assessed as outstanding.

- A commercial 'Responsible Officer' service is provided to 11 Academy schools (increasing to 12 in 2014/15). This has necessitated working in partnership with the School and their External Auditors, however no significant issues have been noted during the year.

4.8 Resources & Partnership Development

4.9 As was previously reported to the Committee in December the function has been over the past two years assessing its future and looking at alternative service delivery options. In June of last year the committee again reviewed and re-confirmed in principle that a Local Authority form of Partnership is recommended.

4.10 In September we agreed a joint working arrangement with North Somerset where Bath and North East Somerset will provide a lead in managing their Audit & Assurance functions in combination with those in this Council. The scope of the activities includes, Audit, Risk, Information

Governance and Business Continuity. The plan at that time would be to integrate the two teams into a full partnership at some point over the next 12 to 18 months.

4.11 Following a six month review of progress by the S151's of both Authorities and the Head of Legal at North Somerset it has been recommended to move both functions into an integrated partnership by April 2015.

4.12 It is planned that the model for delivery will be under S101 of the Local Government Act with Bath and North East Somerset Authority acting as the host authority for staff. The 'partnership' is not a separate legal entity but would have a separate identity, structure and legal constitution and would be constructed to allow additional partners or services to be added if appropriate in the future.

4.13 In addition we are also extending our arrangement with the South West Audit Partnership to replace the audit posts which currently cannot be recruited. We will look at the potential to blend this into the new arrangement with North Somerset in the future. This does provide significant flexibility in future working by allowing us to source specialist skills at a reasonable cost, i.e. IT Auditors, where it is difficult to recruit and retain.

4.14 Integrating resources from different organisations is not without its challenges and therefore it is important that all partners and staff are fully engaged.

4.15 This continues to mean additional time needing to be set aside over the next year to allow this activity to be completed and this has been allowed for within the audit plan for 2014/15.

4.16 As advised in December a work plan has been developed to help create a single way of working over the activities of both Councils. This covers four key work streams and four joint sessions have occurred with a number of positive outcomes completed or in progress. These have included –

- Reductions in unproductive time, cost reductions and increased Income generation opportunities;
- Use of a single audit management system for both partners and single audit methodology to allow 'real' sharing to occur;
- Development of single templates for key documents, i.e. Audit Brief, Audit Report;
- Skills Analysis and integrated training plan;

4.17 Prior to any final decision the S151 Officers have asked for a more detailed implementation plan to be drawn up by September to ensure all

issues and points of detail have been addressed and therefore a further update will be provided to the committee in September.

4.18 Formal Opinion on Internal Control Framework –

Comments of the Chief Internal Auditor

- 4.19 Despite a small number of financial irregularity investigations - which did incur significant audit resource - 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 is satisfactory.
- 4.20 Last year I reported that it was clear that with increased pressure on budgets, choices on the degree of internal control were having 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.
- 4.21 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 therefore the update I have provided above in section 4.8 regarding the progress of the function towards an independent partnership by April 2015 is both timely and welcomed.
- 4.22 It is my view that this is a necessary step to ensure the service can continue to operate at a sufficient level to ensure professional standards can be met, the right level of independence can be adopted and ultimately that the committee can rely on the advice and outcomes from audit work.
- 4.23 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 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.

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Background papers	
Please contact the report author if you need to access this report in an alternative format	