

REPORT TO: SCRUTINY COMMITTEE - 25 JUNE 2014

REPORT ON: 2013/14 INTERNAL AUDIT ANNUAL REPORT

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 270-2014

1.0 PURPOSE OF REPORT

To submit to Members of the Scrutiny Committee the 2013/14 Internal Audit Annual Report which summarises the activities of the Council's Internal Audit Service during this period and provides an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework.

2.0 RECOMMENDATIONS

Members of the Committee are asked to consider and note the contents of this report.

3.0 FINANCIAL IMPLICATIONS

None

4.0 MAIN TEXT

4.1 The remit of the Scrutiny Committee, as laid down in Report No 370-2010, includes consideration of the strategy, plan and performance of the Council's Internal Audit Service. This Committee should also consider internal audit reports and seek assurance that appropriate action has been taken, monitor the implementation of internal audit recommendations agreed with management and receive the annual report of the Chief Internal Auditor.

4.2 The Public Sector Internal Audit Standards (PSIAS) replaced, with effect from 1 April 2013, the previous CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. These standards apply to all internal audit service providers within the public sector. Under the PSIAS the chief audit executive must provide an annual report to the board timed to support the annual governance statement. In the context of the Dundee City Council the "*chief audit executive*" is the Chief Internal Auditor and the "*board*" is the Scrutiny Committee.

4.3 The PSIAS specifically states that the annual report prepared by the chief audit executive must include reference to the following:

- The annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework.
- A summary of the audit work from which the opinion is derived.
- A statement of conformance with the PSIAS including the results of the quality assurance and improvement programme.

4.4 The Internal Audit Annual Report for the 2013/14 financial year, which has been prepared on the basis of the requirements detailed at 4.3 above, is attached for consideration by Members.

5.0 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

6.0 CONSULTATIONS

The Chief Executive, Director of Corporate Services and Head of Democratic and Legal Services have been consulted on the content of this report.

7.0 BACKGROUND PAPERS

None

Sallie Dailly, Chief Internal Auditor

DATE: 10 June 2014

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2013/14 INTERNAL AUDIT ANNUAL REPORT

1. PURPOSE OF REPORT

- To summarise the key areas of activity undertaken by the Council's Internal Audit Service and highlight any matters of significance that have arisen as a result of the audit process during the 2013/14 financial year.
- To provide an independent opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework.

2. GOVERNANCE, RISK MANAGEMENT AND CONTROL FRAMEWORK

- The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost effective services.
- The system of internal control is a significant part of this framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.
- The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. ROLE OF INTERNAL AUDIT

- Internal audit forms a fundamental element of Dundee City Council's governance and assurance framework. The Internal Audit Service is independent of the activities which it audits. This is essential to ensure that the service provides unbiased judgements and impartial advice to management. Through provision of a high quality, independent, objective assurance and consulting activity, guided by a philosophy of adding value, the service aims to bring a systematic and disciplined approach to evaluating and improving the effectiveness of organisation's business processes. This role includes having an understanding of the key risks faced by the Council.
- The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties and personnel pertinent to carrying out any engagement and effectively discharge its remit.
- The primary thrust of internal audit work is to review, appraise and report on a wide range of areas. The types of review undertaken are assigned to various themes namely governance, ICT, systems, procurement/contract and financial. In addition, the service may also provide advice on systems, control and risk and specific investigations.
- The existence of internal audit does not however diminish the responsibility of management to ensure that resources are properly applied in a manner and on the activities intended and the internal control arrangements are sufficient to address the risks facing their services.

4. AUDIT PLANNING

- A vital element in the effective management of internal audit is planning audit work to ensure that objectives are met, priorities are established, resources are targeted and used effectively, best value is achieved and cognisance is taken of the risk associated within each area.
- The Internal Audit Plan is compiled on an annual basis and provides a summary of the areas where it is planned that work will be carried out during the forthcoming year. The Internal Audit Plan for the 2013/14 financial year was submitted to the Scrutiny Committee in June 2013 (Report No. 281-2013). In line with normal practice the Plan was prepared on the best information available at that time.

- The performance of internal audit is also reviewed on an annual basis by the Council's External Auditor, currently KPMG. This enables the external auditor to utilise work carried out by internal audit to inform the year end accounts process where applicable and allows both parties to plan their reviews without duplication of effort and unnecessary disruption to services.

5. AUDIT REPORTS

- Each audit assignment results in an internal audit report which includes an executive summary and also details the audit findings, recommendations and management responses, where appropriate. The audit report essentially provides management with an action plan which assigns responsibility and details the timetable for implementation of audit recommendations.
- Within all audit reports an opinion is given on the importance of each audit finding namely critical, significant or routine. On the basis of this, an overall audit opinion on the level of assurance assigned to the area reviewed is given in the report's executive summary. Broadly there are four levels of assurance namely full, reduced, limited and no assurance.
- The findings and recommendations arising from the audit assignments reported upon in 2013/14 have been discussed with appropriate officers of the Council and agreed action plans have been put in place to address areas for improvement. The executive summary for each of these has been submitted to the Scrutiny Committee for consideration.
- Internal Audit also undertakes follow-up work and progress reviews to confirm that management has discharged its responsibility for implementing audit recommendations within the agreed timescale. Such work is also formally reported upon to the Scrutiny Committee and the relevant officers of the Council.

6. KEY EVENTS DURING 2013/14

- The Council's modernisation agenda is being progressed through various channels such as the Changing for the Future Programme and also windfall opportunities to review and redesign service delivery. This continues to provide challenges to internal audit's service delivery both in terms of the preparation of the annual plan and also potentially in the delivery of the specific projects. To address this and ensure that the potential impact on the provision of the Council's internal audit service is minimised there has been increased dialogue with stakeholders at key points during the audit process.
- During 2013/14 the Internal Audit Service continued to be delivered through utilising both in-house and external resources. Given this approach was considered to be fundamental to the delivery of the service going forward it was decided to formally tender for the supply of internal audit services to the Council under a co-sourcing arrangement. This exercise was undertaken during the latter part of 2013 and resulted in PwC being appointed as the Council's co-sourcing partner for the provision of internal audit services. This arrangement became effective from 1 January 2014. Although it is early days this arrangement is considered to be working well and it is envisaged will provide added benefits to the service in terms of specialist skills and advice.
- At a national level the Public Sector Internal Audit Standards (PSIAS) became effective at the start of the 2013/14 financial year. These standards apply to all public sector internal audit service providers. Whilst a number of the areas included in the requirements of the PSIAS are similar to those in the previous Code, there are other areas where work will be required to ensure conformance with the requirements of the Standards. An initial gap analysis between the PSIAS and the Council's Internal Audit Service has been undertaken. Whilst the Council's internal audit service generally conforms with the requirements of the PSIAS, some areas of improvement have been identified. Based on this assessment it is intended that an action plan will be developed of the areas of improvement and that this be formally reported during 2014/15. On the basis of the initial assessment one of the areas that has already been addressed is in respect of the Internal Audit Charter. This was updated and reported to the Scrutiny Committee in February 2014 (Report No 75-2014).

7. PLAN ACHIEVEMENT

For the 2013/14 financial year the actual number of productive days for audit work was 813 which represented a shortfall of 4% against the budgeted productive days. This was due primarily to the lengthy time-line for the tender exercise to appoint a co-sourcing partner to

provide internal audit services which in turn impacted upon the scheduling of the specific reviews to be undertaken as part of this agreement. In terms of the total productive days available approximately 80% were spent on direct audit activities and 20% were spent on support activities such as management, audit planning, staff training and development. This was broadly in line with previous financial years.

- The 2013/14 Internal Audit Plan included 31 areas, both at a corporate and departmental level, to be reviewed. It also included allocations of audit days for follow-up reviews, progress reviews, finalisation of audit assignments which commenced in the previous 2013/14 financial year, provision of advice to clients on systems, control and risk and specific investigations.
- Whilst work on the majority of the planned areas for corporate and departmental reviews included within the plan commenced in 2013/14 there was some areas of slippage in part due to the formal co-sourcing arrangement not being finalised until the last quarter of the financial year. In terms of the areas of slippage it is intended that as far as practicable the outstanding reviews will be completed during the 2014/15 financial year. However some of the planned information technology reviews will require to be deferred meantime because there continues to be significant demands being placed on IT in ensuring that the Council's IT infrastructure is compliant with the stringent requirements now being placed upon the organisation through public sector network (PSN) code of connection.

8. OVERALL ASSESSMENT OF CONTROLS

- Internal Audit activity for the Council during 2013/14 covered a wide spectrum of areas including additional support needs, auto-enrolment, building quality support, corporate complaints, data protection, disposal of IT equipment, encryption of laptops, ICT resilience, ICT solutions, information security management systems, lone working, non-domestic rates, occupational health, patch management, pension fund, performance measures, pre-school provision, procurement cards, spreadsheets, stocks and inventories, grant claims and follow-up reviews. The range of subject matter covered continues to reflect the changing landscape and nature of internal audit work which focusses upon evaluating and contributing to the improvement of the organisation's governance, risk management and control processes.
- The 2013/14 reviews of corporate and departmental systems identified that many of the expected controls are in place and operating satisfactorily in the areas examined. However the audit work also identified scope for improvement. Internal audit reports included a range of recommendations and action plans have been developed in consultation with management which, as they are implemented, should improve the overall control environment.
- During the 2013/14 financial year, 31 internal audit reports were issued. A summary of the reports issued and key information pertaining to these is attached at Appendix A. These reports have generally been well received by clients with management agreeing to implement 100% of the recommendations made. A total of 70 recommendations were made in the reports issued. Of these 2 were assigned to be critical, 35 significant and the remaining 33 were deemed to be routine. This compares to the previous financial year where a total of 60 recommendations were made. However for 2012/13 none of the recommendations made were deemed to be critical.
- Analysis of the overall audit opinion for the reports issued highlighted that 20% of the areas reported upon were considered to be well controlled (full assurance), 45% were adequately controlled (reduced assurance) and 35% were requiring improvement (limited assurance). These statistics show a slight downward trend in the average level of assurance as compared to the previous financial year and therefore a watching brief will be kept on this area. Once again none of the areas reviewed and reported upon were deemed to be so poorly controlled that no assurance could be placed upon the systems and controls being operated.
- The PSIAS requires the Chief Internal Auditor to deliver an internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control and that this opinion be used to inform the Council's Annual Governance Statement. Attached at Appendix B is the Chief Internal Auditor's opinion which takes due cognisance of the audit work carried out by the Internal Audit Service and other pertinent information. On the basis of the areas used to inform this process for the year to 31 March 2014 the overall audit opinion reached was that reasonable assurance could be placed upon the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Summary of Internal Audit Reports Issued during the 2013/14 Financial Year

Report No.	Area Reviewed	Level of Assurance	Recommendations			
			Total No.	Importance		
				Critical	Significant	Routine
2011/32	Community Equipment Services	L	1	-	1	-
2011/33	Encryption of Laptops	L	2	-	2	-
2012/01	Tayside Pension Fund	L	6	1	2	3
2012/10	Performance Measures	F	0	-	-	-
2012/16	ICT Solutions	R	4	-	-	4
2012/22	Telecommunications – Mobile Phones	R	3	-	3	-
2012/24	Patch Management (Education Network)	R	1	-	1	-
2012/25	Information Security Management System	L	1	-	1	-
2012/27	Building Quality Support	L	6	-	2	4
2012/28	Pre-School Provision	R	1	-	-	1
2012/29	Non-Domestic Rates	R	1	-	-	1
2012/31	Procurement Cards	L	3	-	2	1
2012/34	Stocks and Inventories	R	1	-	-	1
2012/35	Corporate Complaints	R	5	-	1	4
2012/36	Data Protection	L	4	-	4	-
2012/37	ICT Resilience	L	2	1	1	-
2012/38	Spreadsheets	L	2	-	1	1
2012/40	Tayside Procurement Consortium	R	1	-	-	1
2013/01	Payment of Pensions for Former Employees of ex List D Schools	F	0	-	-	-
2013/02	2012/13 Grant Claim : Local Air Quality Management	F	0	-	-	-
2013/03	2012/13 Grant Claim : Air Quality Action Plan	F	0	-	-	-
2013/08	Carbon Reduction Commitment	R	3	-	2	1
2013/09	Risk Management Arrangements	R	2	-	2	-
2013/10	Governance Arrangements (Leisure and Culture Dundee)	F	0	-	-	-
2013/11	Corporate Complaints	R	2	-	-	2
2013/15	Auto-enrolment	R	3	-	1	2
2013/16	Disposal of IT Equipment	R	3	-	2	1
2013/17	Occupational Health	L	5	-	3	2
2013/18	Lone Working	R	4	-	2	2
2013/20	Additional Support Needs	L	4	-	2	2
2013/22	Winter Maintenance	F	0	-	-	-

KEY : Level of Assurance

Full

Reduced

Limited

No

To the Members of Dundee City Council, Chief Executive and Director of Corporate Services

As Chief Internal Auditor of Dundee City Council, I am pleased to present my annual opinion for the year ended 31 March 2014. It should be noted that the statement does not include assurances on group activities.

Respective Responsibilities of Management and Internal Audit in Relation to the Control Environment

It is the responsibility of the Council's officers to determine, establish and maintain sound systems of internal control, to ensure that the organisation's resources are properly applied in a manner and on the activities intended and the internal control arrangements are sufficient to address the risks facing their services. This includes responsibility for the prevention and detection of fraud. Management is also charged with monitoring the continuing effectiveness of the internal control environment and taking action as appropriate. It is the responsibility of the Chief Internal Auditor to provide an annual assessment of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Control Environment

This comprises the governance, risk management and control processes in the context of the Council's defined goals and objectives. The key elements include the following:

- Consistency of operations with established goals and objectives.
- Effectiveness and efficiency of operations and deployment of resources.
- Compliance with significant policies, plans, procedures, laws, and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.

A sound control environment reduces, but cannot eliminate, the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances. It therefore provides reasonable but not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud or breaches of law or regulations. Accordingly, the Council is continually seeking to improve the adequacy and effectiveness of its control environment.

The Focus of Internal Audit Work

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Through their work internal audit helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards, which came into effect on 1 April 2013. These Standards, which are mandatory and represent best practice, replace the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom published in 2006.

The Chief Internal Auditor prepares an annual internal audit plan which outlines the work to be undertaken. The internal audit plan is developed utilising a risk-based methodology based on the audit universe and will take into account the requirement placed upon the Chief Internal Auditor to deliver an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's control environment. In compiling the plan input from senior management and any other relevant parties will be sought and cognisance is taken of emerging issues. The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation. The plan, any material changes to the plan during the course of the financial year and any significant matters that may impact upon the delivery of the plan are reported to the Scrutiny Committee at an appropriate juncture.

The Internal Audit Service formally reports upon the areas subject to review. Such reports, which identify system weaknesses and/or non-compliance with expected controls, are issued for the attention of departmental managers and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that due consideration is given to internal audit reports. This includes management taking remedial action where appropriate or accepting that there may be a level of risk exposure if the weaknesses identified are not addressed for operational reasons. Internal Audit has a responsibility to ensure that agreed action plans have been implemented. Matters arising from internal audit work are also reported to the Council's Scrutiny Committee, the Chief Executive and the Council's External Auditor.

Summary of 2013/14 Internal Audit Activity

During 2013/14 financial year a total of 31 internal audit reports were issued. These covered a wide spectrum of areas including additional support needs, auto-enrolment, building quality support, corporate complaints, data protection, disposal of IT equipment, encryption of laptops, ICT resilience, ICT solutions, information security management systems, lone working, non-domestic rates, occupational health, patch management, pension fund, performance measures, pre-school provision, procurement cards, spreadsheets, stocks and inventories, grant claims and follow-up reviews. The Internal Audit Service also provided advice on the control environment as required.

The 2013/14 audit of corporate and departmental systems has identified that many of the expected controls are in place and operating satisfactorily. The audit work has, however, also identified scope for improvement in some systems which either have weaknesses in them or lack controls. The Internal Audit Service has put forward a range of recommendations in the areas examined and action plans have been developed in consultation with management which, as they are implemented, should result in continued improvement in the control environment.

Limitation of Scope

In the financial year under review there was no limitation of scope placed upon the work undertaken by the Internal Audit Service.

Basis of Opinion

My evaluation of the framework of governance, risk management and control is informed by a number of sources which include the following:

- The audit work undertaken by the Internal Audit Service during the year to 31 March 2014.
- The assessment of risk completed during the preparation of the audit plan.
- Reports issued by the Council's External Auditor and also reports by other review agencies.
- Knowledge of the Council's governance, risk management and performance monitoring arrangements.
- Formal assurances received from the Council's Directors/Heads of Service in the form of a Self Assessment Checklist.

Opinion

It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year to 31 March 2014.

Sallie M. Dailly

**Chief Internal Auditor
Dundee City Council**

DATE

10 June 2014