

**REPORT TO: SCRUTINY COMMITTEE - 25 JUNE 2013**

**REPORT ON: 2012/13 INTERNAL AUDIT ANNUAL REPORT**

**REPORT BY: CHIEF INTERNAL AUDITOR**

**REPORT NO: 281-2013**

## **1.0 PURPOSE OF REPORT**

To submit to Members of the Scrutiny Committee the Internal Audit Annual Report for the 2012/13 financial year 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 Council's control environment.

## **2.0 RECOMMENDATIONS**

Members of the Committee are asked to note the information contained within 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. Attached at Appendix A is the Internal Audit Annual Report for the 2012/13 financial year and at Appendix B is a summary of the Internal Audit Reports issued during the same period.

**4.2** On an annual basis the Chief Internal Auditor is also required to prepare a statement which provides an opinion on the adequacy and effectiveness of the control environment of the Council. This statement forms part of the assurance gathering process which feeds into the Annual Governance Statement included within the Council's Statement of Accounts. A copy of the Chief Internal Auditor's statement for the 2012/13 financial year is attached at Appendix C.

## **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: 03 June 2013

## 2012/13 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 2012/13 financial year.
- To provide an independent opinion on the adequacy and effectiveness of the systems of internal control based on the work undertaken during the year.

### 2. INTERNAL CONTROL FRAMEWORK

- Each local authority is accountable for the way in which it discharges its stewardship of public funds. Stewardship is a function of management and, therefore, a responsibility placed upon elected members and officers of the authority.
- Such responsibility is discharged by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources, and by the preparation, maintenance and reporting of accurate and informative accounts.
- There are a number of aspects of corporate governance which are essential prerequisites to the traditional public sector values of impartiality, openness and transparency and the highest standards of probity and propriety appropriate to the handling of public funds. These include a sound control environment, security of key financial systems and an adequate and effective internal audit function.

### 3. ROLE OF INTERNAL AUDIT

- Internal audit is an independent appraisal and review function which has been set up within the Council as a service to the Scrutiny Committee, Chief Executive, Director of Corporate Services and all levels of management. The remit of the Internal Audit Service is to provide an independent and objective opinion on the control environment by evaluating its effectiveness in achieving the Council's objectives. The Service objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources throughout the Council's activities.
- The existence of internal audit does not diminish the responsibility of management to establish and maintain appropriate risk management processes, control systems, accounting records and governance arrangements and management should not depend on internal audit as a substitute for effective controls.
- The role of internal audit is to understand the key risks faced by the Council and examine and evaluate the adequacy and effectiveness of risk management processes, control systems, accounting records and governance arrangements as operated by the Council.
- Internal Audit has unrestricted access to all activities undertaken within the organisation in order to be able to 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 can be 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 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.

### 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 2012/13 financial year was submitted to the Scrutiny Committee in June 2012

(Report No. 236-2012). 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 by the Council's External Auditor, currently KPMG, on an annual basis. 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 the 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 2012/13 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 of all reports finalised have also 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 2012/13**

- Due to both the pace and diversity of change within the Council, the planning and delivery of the specific projects included within the 2012/13 Internal Audit Plan continued to be challenging. However steps were taken to try to minimise the impact of this through increased consultation with stakeholders at key points during the audit process. In addition, the service has endeavoured to keep abreast of organisational developments and thereby ensure that such changes are fully considered in determining the focus of the work to be undertaken.
- The Internal Audit Service during the year was delivered through utilising both in-house and external resources. Given the breadth and potential complexity of reviews which now require to be undertaken by internal audit this approach is proving beneficial particularly for those reviews which require specialist skills.
- The exercise to compile the 2013/14 Internal Audit Plan commenced in the last quarter of the financial year. Once again key stakeholders were fully consulted to ensure that potential areas of concern or risks raised were captured.

## **7. PLAN ACHIEVEMENT**

- For the 2012/13 financial year the actual number of productive days for audit work was 787 which represented a shortfall of 5% on the budgeted productive days for audit reviews included within the plan. This was due primarily to the level of staff absence being greater than had been anticipated at the time the 2012/13 Internal Audit Plan was drafted and a subsequent request for flexible working to reduce the number of hours worked. In terms of the overall productive days available approximately 82% were spent on direct audit activities and 18% were spent on support activities such as management, audit planning, staff training and development. This was in line with the previous financial year.

- The 2012/13 Internal Audit Plan included 32 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 2011/12, 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 2012/13 there was some slippage in part due to in-house resources being less than anticipated and delays in progressing the procurement framework which is key to taking forward a more structured approach to the co-sourcing of internal audit services. In addition, to obtain the necessary assurances for some of the planned assignments, additional fieldwork was undertaken. The key areas of slippage, which are now to be undertaken as part of the 2013/14 Internal Audit Plan, were the communication and partnership arrangements governance reviews.

## **8. OVERALL ASSESSMENT OF CONTROLS**

- Internal Audit activity for the Council during 2012/13 covered a wide spectrum of areas including business continuity, confidential waste, corporate governance, fraud governance, fuel management, health and safety, leavers, licensing, meals income, occupational road risk, repairs, sub-contractors, year end stocks, grant claims and follow-up reviews. The wide range of subject matter covered is in line with the changing landscape of internal audit work and the move away from a focus on financial audits to reviews which consider and evaluate the effectiveness of governance, risk management and control processes.
- The 2012/13 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 in systems which have either weaknesses in them or lack controls.
- During the 2012/13 financial year, 27 internal audit reports were issued. Reports have generally been well received by clients with management agreeing to implement 100% of the recommendations made. Details of these reports issued and key information pertaining to these are attached at Appendix B.
- Analysis of the overall audit opinion for the reports issued highlighted that 26% of the areas reported upon were considered to be well controlled (full assurance), 48% were adequately controlled (reduced assurance) and 26% were requiring improvement (limited assurance). 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.
- Internal audit reports included a range of recommendations for improvement in the areas examined and action plans have been developed in consultation with management which, as they are implemented, should improve the overall control environment.
- The Code of Practice on Local Authority Accounting in the UK requires the Chief Internal Auditor to provide an independent opinion on the adequacy and effectiveness of the Council's system of internal financial control. However the Council has voluntarily adopted the preparation of an Annual Governance Statement for inclusion in its Statement of Accounts. Attached at Appendix C is the Chief Internal Auditor's annual opinion on the Council's control environment. The Chief Internal Auditor takes due recognition 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 2013 the overall audit opinion reached was that reasonable assurance could be placed upon the overall adequacy and effectiveness of the Council's control environment.

## Summary of Internal Audit Reports Issued during the 2012/13 Financial Year

Report No.	Area Reviewed	Level of Assurance	Recommendations			
			Total No.	Importance		
				Critical	Significant	Routine
2011/08	Meals Income (Social Work)	R	3	-	2	1
2011/22	Dundee Joint Equipment Service	L	4	-	3	1
2011/25	Corporate Governance Arrangements	R	1	-	-	1
2011/29	Handling and Disposal of Confidential Waste	R	1	-	-	1
2011/30	Fuel Management (Cleington Road and Caird Park)	L	2	-	2	-
2011/34	Licensing of Houses in Multiple Occupation	L	5	-	2	3
2011/39	Governance Arrangements (Leisure and Culture Dundee)	R	1	-	1	-
2011/40	Leavers	L	4	-	4	-
2011/42	Housing Repairs	R	4	-	1	3
2011/43	BACS	R	5	-	4	1
2011/44	Electoral Registration	R	1	-	-	1
2012/02	2011/12 Grant Claim : Cycling, Walking and Safer Streets Projects	F	0	-	-	-
2012/03	Payment of Pensions for Former Employees of ex List D Schools	F	0	-	-	-
2012/04	2011/12 Grant Claim : Local Air Quality Management	F	0	-	-	-
2012/05	Sub-Contractors	L	3	-	1	2
2012/06	2011/12 Grant Claim: Air Quality Action Plan	F	0	-	-	-
2012/09	Carbon Reduction Commitment Energy Efficiency Scheme	R	3	-	-	3
2012/11	Fraud Governance	R	3	-	-	3
2012/12	Health and Safety	L	4	-	3	1
2012/13	Business Continuity	L	3	-	2	1
2012/15	Winter Maintenance - Communication	F	0	-	-	-
2012/18	Occupational Road Risk	R	2	-	-	2
2012/19	Amendment of Creditors' Standing Data	R	2	-	1	1
2012/20	Control Self Assessment for Social Work Establishments	F	0	-	-	-
2012/21	Control Self Assessment for Education Establishments	F	0	-	-	-
2012/26	Residential Parking Permits	R	3	-	3	-
2012/30	Debtors and Debt Management – Sundry Debtors	R	6	-	3	3

## 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 2013. 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 and to ensure that the organisation's resources are properly applied on the activities intended. 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 robustness of the control environment within the Council.

### **Control Environment**

This comprises the systems of governance, risk management and internal control. The key elements include:

- Establishing and monitoring the achievement of the organisation's objectives.
- Facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations.
- Ensuring the economical, effective and efficient use of resources and securing continuous improvement.
- Financial management of the organisation.
- Performance management of the organisation.

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 effectiveness of its control environment.

### **The Focus of Internal Audit Work**

Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. The Council's Internal Audit Service operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom, published by the Chartered Institute of Public Finance and Accountancy (C.I.P.F.A.), and which represents best practice.

The Chief Internal Auditor prepares an annual internal audit plan which outlines the work to be undertaken. This takes cognisance of the risks associated with various activities undertaken by the Council, emerging issues and requests received from departments for specific reviews. 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 and any significant matters that may impact upon the delivery of the plan are reported to the Scrutiny Committee.

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 2012/13 Internal Audit Activity**

During 2012/13 financial year a total of 27 internal audit reports were issued. These covered a wide spectrum of areas including business continuity, confidential waste, corporate governance, fraud governance, fuel management, health and safety, leavers, licensing, meals income, occupational road risk, repairs, sub-contractors, year end stocks, grant claims and follow-up reviews. The Internal Audit Service also provided advice on the control environment as required.

The 2012/13 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 control environment 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 2013.
- 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 control environment for the year to 31 March 2013.

*Sallie M. Dailly*

**Chief Internal Auditor  
Dundee City Council**

**DATE**

**04 June 2013**