

INTERNAL AUDIT YEAR-END REPORT 2013/14**DRAFT OPINION ON THE OVERALL CONTROL ENVIRONMENT**

1. This is a draft overall opinion based on internal audit risk based work and includes the core financial systems work for 2013/14 and the results of the management assurance exercise for 2013/14.
2. The adequacy and effectiveness of the organisation's control environment for the 2013/14 financial year has been assessed as "good" based on the following:
 - 78% of the traffic lighted systems reviewed during 2013/14 were given an amber, an amber/green or a green assurance rating;
 - 98% of recommendations made during 2013/14 were agreed for implementation;
 - 74% of recommendations followed-up have been implemented, 23% are in progress or are planned at the time of follow-up thus it is expected that in due course 97% will be implemented. 86% of follow-ups resulted in an improved assurance rating and 14% were core financial system reviews that remained green.
 - 6 suspected financial irregularities were reported to Internal Audit during 2013/14.
 - 87.5% of controls reviewed (thus far) within the Council's core financial systems were either operating fully or substantially, with 12.5% operating partially.
 - 100% of walkthrough tests confirmed that the core financial systems were operating as described in system notes and 95% of controls self-assessed by management were operating.
3. The final opinion will include all the core financial system reviews and the results of the Management Assurance exercise

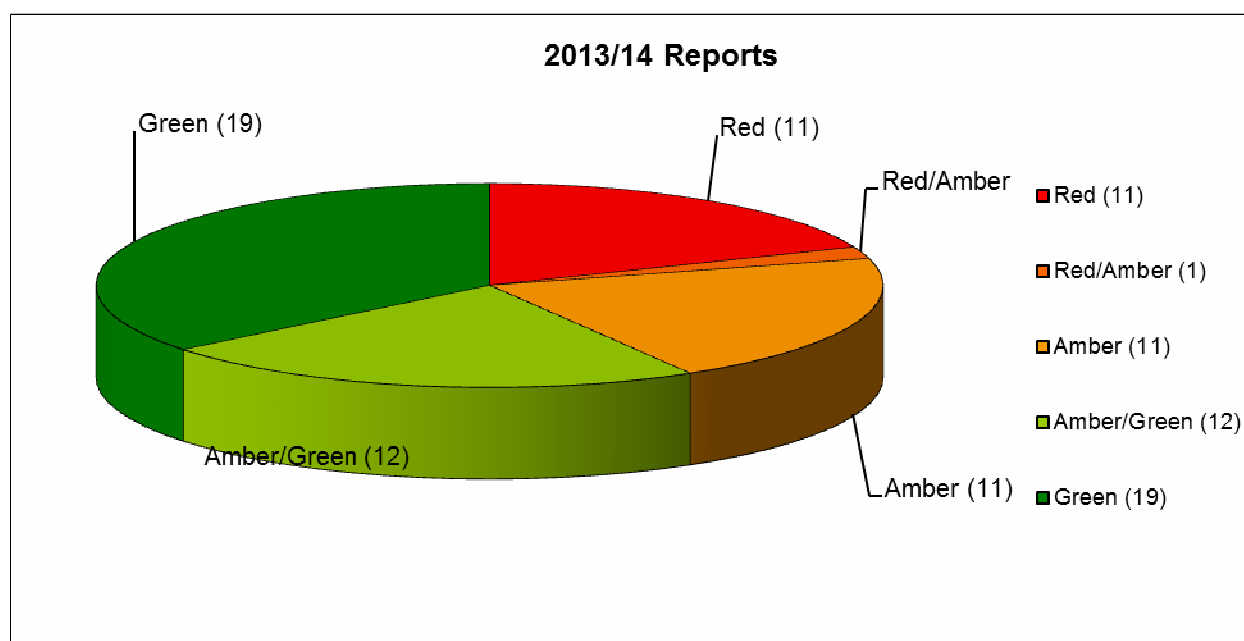
OVERVIEW OF WORK UNDERTAKEN

4. Overall the Internal Audit Team have achieved 92% of the 2013/14 Annual Audit plan. This included 100% achievement of the core financial systems reviews relied upon by the council's External Auditors for their risk assessment of the authority. See Appendix E.
5. The original 2013/14 plan contained 51 projects/areas, during the year 4 projects were replaced by new emerging risk projects.
6. In addition to this 119 days have been spent on projects carried forward from 2012/13, 81 days have been spent on investigating suspected financial irregularities (11 days more than the annual allocation), 75 days have been spent on providing professional advice on internal control and risk mitigation (10 days more than the annual allocation) and 47 days have been spent on standard follow-ups of audit recommendations (7 days more than the annual allocation). The annual allocation for follow-up is an estimate of how many days will be required for following up red and amber reports based on 2 days per report and is dependent on how many reports are issued.

Assurance Reports

7. Audit reports are traffic lighted to indicate the level of assurance that can be obtained from the system under review. This ranges from green reports indicating that a system is well controlled and therefore a low risk to the authority to red reports indicating that a system represents a high risk to the authority needing immediate attention to improve the control environment.
8. As the Internal Audit Plan is risk based it concentrates on systems that have been identified as high risk by management via inclusion in the corporate risk registers or during consultation on the audit plan or by internal audit based on cumulative audit knowledge and audit risk assessment. In 2008/9 41% of assurance levels were red or red/amber; in 2009/10 it was 50%; in 2010/11 it was 42%; in 2011/12 it was 30%; in 2012/13 it was 14% and in 2013/14 it was 22%. This shows an overall improvement in the level of controls in place and operating effectively across the Council and is reflected in the Opinion on the Overall Control Environment (above).
9. A total of 54 Internal Audit reports were issued during the year of which there were 20% red assurance, 2% red/amber assurance, 20% amber assurance, 22% amber/green and 35% green assurance. Graph 1 below illustrates the mix of the assurance levels given to reports issued in 2013/14.

Graph 1 – Traffic Light Reports 2013/14



10. The table shows that 78% of the traffic lighted systems reviewed during 2013/14 were given an amber, an amber/green or a green assurance rating i.e. over 61% expected controls operating at the time of review.
11. Appendix C details all the final reports, draft reports and follow ups issued in 2013/14.

Recommendations

12. A total of 441 recommendations were made of which 432 were agreed (or alternative actions agreed) for implementation (98%) which exceeds the 95% performance target. Nine recommendations were not agreed. The specific recommendations, the management response and the audit comment included in the final report are shown in Appendix D.

Follow-ups

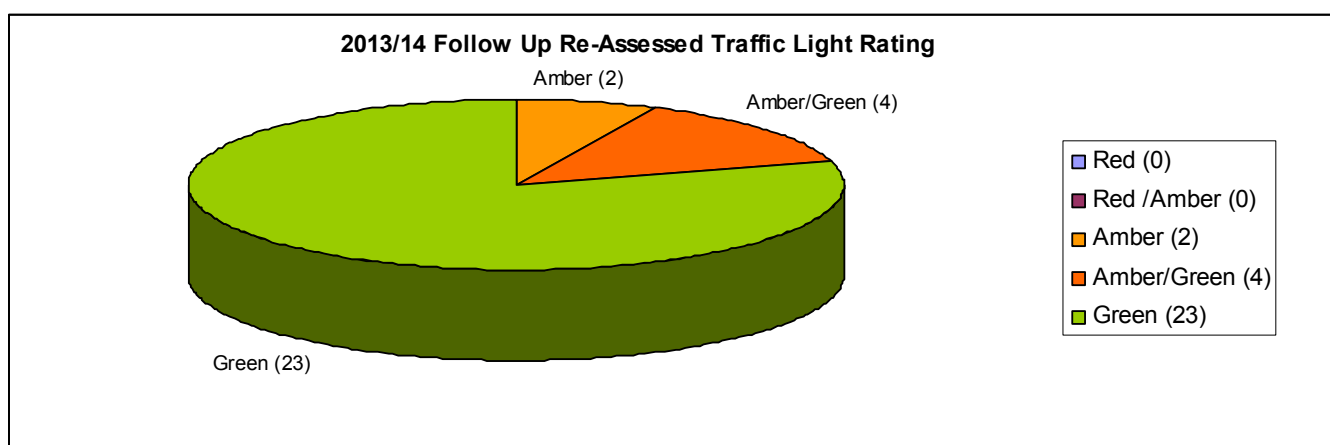
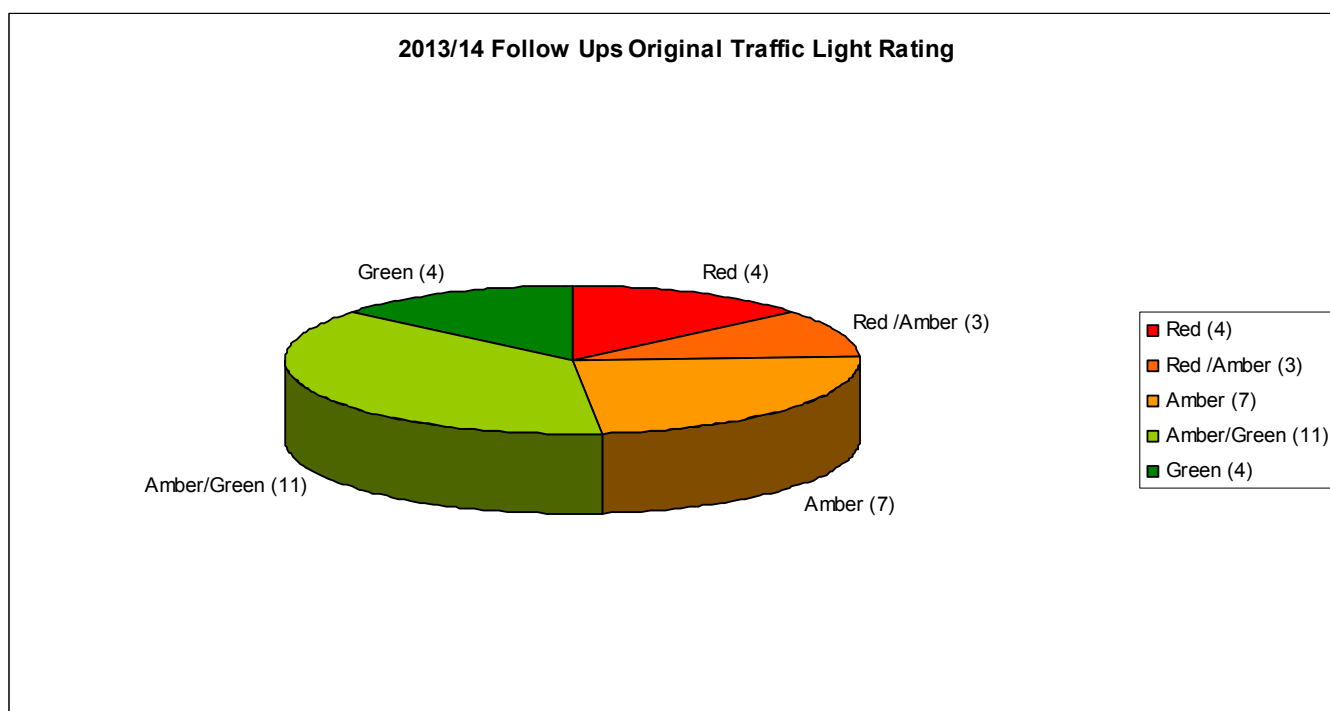
13. The Internal Audit policy on follow-up is to follow-up red and red/amber reports after 3 months and to follow-up amber and amber/green reports after 6 months, reassessing the traffic light of each report. Green reports are not followed up as they are low risk unless it is a core financial system review.
14. During 2013/14, a total of 364 recommendations have been followed up. Of these a total of 271 have been implemented, 61 were partially implemented/in the process of being implemented, 22 were planned for implementation, and 9, although originally agreed by management, were not implemented. This represents a 74% implementation (of recommendations still applicable) however a further 23% are in progress or were planned at the time of follow-up thus it is expected that in due course 97% will be implemented. Of the 92 recommendations partially implemented/planned/not implemented, 21 were high risk. Of these it has been confirmed that 7 have now been implemented and 4 have been substantially implemented. See Appendix D for further information.
15. Of the 29 reviews followed up, 4 were red reports, 3 was a red/amber report, 7 were amber reports and 11 were an amber/green report and 4 were green reports (core financial system reports). In accordance with the Internal Audit policy on follow-ups the reports shown in table 2 and the pie charts below were reassessed as part of the follow-up and a new audit opinion issued showing the updated traffic light position:

Table 2 – Re-issued Audit Opinions

Report	Original Traffic-light	Re-assessed Traffic Light
Childrens Centres	Red	Green
Debtors (CAR) Key Control	Amber	Green
Earlsmead Financial Controls	Amber/Green	Green
Longfield Financial Controls	Amber/Green	Green
Stag Lane Junior Financial Controls	Amber/Green	Green
Woodlands Financial Controls	Amber/Green	Green
Housing Rents Key Control	Green	Green
Capital Expenditure Programme	Amber	Amber/Green
Transformation Programme Engagement & Culture Change - Procurement	Red/Amber	Amber/Green
Kingsley Financial Controls	Amber/Green	Green
Heathland Financial Controls	Amber/Green	Green
Elmgrove Financial Controls	Amber/Green	Green
Vaughan Financial Controls	Amber/Green	Green
Mobile Phone	Red	Amber
Contract Monitoring C&E	Red/Amber	Green
Stanburn Junior Financial Controls	Amber/Green	Green

WLWA Income & Expenditure	Red	Amber/Green
Whitefriars Financial Controls	Amber	Green
Grange Governance/Procurement	Amber	Green
WLWA Overtime	Red/Amber	Amber
Sacred Heart Financial Controls	Amber/Green	Green
Transformation Programme Engagement & Culture Change - Business Support	Amber	Green
Client Finances – Court of Protection	Amber	Amber/Green
Council Tax Key Control	Green	Green
St John Fisher Petty Cash	Red	Green
Aylward Financial Controls	Amber/Green	Green
Payroll 12/13 Key Control	Green	Green
Treasury Management Key Control	Green	Green
Personalisation	Amber	Green

16. 25 of the 29 re-assessed reports showed an improved assurance rating and the 4 core financial system reports retained the same green assurance rating.



Emerging Risks

17. Emerging risks are areas of risk arising during the year that were not apparent at the time of the annual planning process but that are considered significant enough by management/internal audit to warrant audit input. The emerging risk areas arising during 2013/14 were:

- Staff Canteen
- Arboricultural Services
- Financial Regulations in schools
- Heathland Waivers

These emerging risks were significant and therefore have become projects in the 2013/14 Internal Audit Plan.

Audit of Core Financial Systems – Updated Report

18. As part of the 2013/14 Annual Plan Internal Audit undertook a key control review on the following systems as part of the agreed approach to the audit of the Authority's core financial systems for the financial year 2012/13 (reported in detail in the 2013/14 mid-year report):

- Payroll
- Treasury Management
- Council Tax

19. In addition to satisfy additional requirements of the External Auditors, Control self-assessments were obtained from the relevant managers for the following core financial systems:

- Housing Benefits
- NDR
- Housing Rents
- Corporate Accounts Receivable
- Corporate Accounts Payable
- Capital Programme

and systems documentation was reviewed/updated and walkthrough tests were undertaken to confirm the actual system in operation for all the above core financial systems.

20. Overall out of a total of 30 key controls reviewed, 21 (70%) were fully operating, 5 (16%) were substantially operating and 4 (14%) were partially operating. In total 14 recommendations were made, 10 of which were medium risk and 4 were low risk. Of the 14 recommendations made, 11 have been agreed for implementation.
21. For the Payroll system overall, 81% of the elements of the controls were operating effectively, 4% were substantially operating and 15% were partially operating. Each of the 9 key controls is made up of a number of individual elements that were each tested. Therefore 6 key controls are fully in place 2 key controls are substantially in place and 1 key control is partially in place. Five recommendations have been made to address the weaknesses identified, they were all rated as medium risk. Four recommendations have been agreed for implementation, 1 recommendation is awaiting the outcome of the MINERVA project within Resources, Employee Self Service is being reviewed and/or another mechanism will be put in place.
22. For the Treasury Management system overall, 72% of the elements of the controls were operating effectively, 11% were substantially operating and 17% were partially operating. Each of the 10 key controls is made up of a number of individual elements that were each tested. Therefore 6 key controls are fully in place, 1 key control is substantially in place, and 3 key controls are partially in place. Six recommendations have been made to address the weaknesses identified, 5 were rated as medium risk and 1 was rated as low risk. All recommendations have been agreed for implementation.
23. For the Council Tax system overall, 90% of the elements of the controls were operating effectively, with 10% substantially operating. Each of the 11 key controls is made up of a number of individual elements that were each tested. Therefore 9 key controls are fully in place and 2 key controls are substantially in place. Three low risk recommendations have been made to address the weaknesses identified to enhance the already strong control environment. One of the 3 recommendations has been agreed for implementation. For 1 recommendation, the target for taking action on the Schedules of Alterations from the Valuation Office Agency has been revised to 30 days which leaves the outstanding risk that the potential increase in yield from new builds may be delayed slightly due to this amendment of target. The remaining recommendation has not been agreed regarding the timescale for quality checks by the Service Manager on authorisations of write-offs. This is a low residual risk however as the quality check will continue to be carried out and forms part of the general housekeeping processes.

Other Work

24. Other work undertaken annually in the first quarter includes the completion of reviews from the previous years plan, the annual Management Assurance exercise and the annual governance review feeding into the authority's Annual Governance Statement (AGS). The results of these are reported to the GARM committee in detail separately.
25. Management Assurance: During 2012/13 a review of the management assurance process was undertaken and it was redesigned and aligned to the Corporate Risk Register. During 2013/14 risk owners and Corporate Directors were asked to provide assurance on the operation and effectiveness of key controls in place during 2013/14 to mitigate the Council's most significant risks. Evidence was provided to Internal Audit to support the self-assessments. A summary report is being prepared to be signed off by the Head of Paid Service and will be reported to the next GARM meeting and the results of the process will feed into the final Annual Governance Statement.

26. Corporate Governance: An annual review of governance is undertaken, co-ordinated by Internal Audit, feeding into the Annual Governance Statement and overseen by the Corporate Governance Group.
27. Information Governance Board: Internal audit attends and contributes to the Information Governance Board including reviewing and updating policies and procedures.
28. Improvement Boards: Provision of information on the production of draft and final IA reports and follow-ups undertaken to support quarterly improvement boards.

Professional Advice

29. A range of professional advice was provided by the IA Team across the council during the year covering such areas as recruitment and retention, capital governance, conflicts of interest, delegations, application of contract procedure rules and financial regulations etc.

Suspected Financial Irregularities

30. During 2013/14, 6 suspected financial irregularities (SFIs) were reported to Internal Audit. Investigations into 67% of these have been concluded with no significant loss to the Council. See Appendix B for details of the significant SFIs.

RELIANCE

31. The Authority's External Auditor's, Deloitte LLP, placed reliance on the work undertaken by Internal Audit as part of the 2013/14 Annual Plan in relation to the Authority's core financial systems in operation during 2012/13 for their risk assessment of the Authority.

COMPLIANCE WITH STANDARDS

32. The CIPFA Code of Practice for Internal Audit in Local Government in the UK was replaced by the Public Sector Internal Audit Standards (PSIAS) from April 2013 and a Local Government application Note was issued by CIPFA in April. Together these now constitute proper practices to satisfy the requirements of larger relevant bodies as set out in the Accounts and Audit Regulations 2011.
33. The Application Note contains a checklist for assessing conformance with the PSIAS and the Local Government Application Note and this will be used to periodically check our compliance.
34. There is also a requirement for an external assessment to be undertaken every five years and we are working with other London Boroughs to set up a series of peer reviews to satisfy this requirement.

PRODUCTIVITY

35. The days available to implement the internal audit annual plan are based on an estimation of the team's productive time. To enable this estimation to be made, and to feed into performance indicator 3 (see section below), each auditor is required to record a breakdown of their time spent each day. Each element of productive time (i.e. every

project/element of the annual plan plus any additions e.g. emerging risks) and each element of non-productive time (e.g. annual leave, training, audit management) is allocated a unique code and time is recorded against each code to the nearest 15 minutes.

36. The number of audit days available for the 2013/14 plan was determined via a detailed resource calculation for each auditor taking into account available days, actual days 2012/13 and allowances for annual leave, training etc. A challenging target was set for each member of the team and the combination of these targets determined the days available for the Internal Audit Plan.
37. The year-end position shows that overall the team have achieved 1148 productive days which exceeds the target of 1090 days for 2013/14 by 58 days.

PERFORMANCE INDICATORS

38. The Internal Audit Quality Assurance and Performance Indicators Framework was developed in compliance with the CIPFA Code of Practice and has been operating since 2007/08 (although reviewed/updated at least annually). The aim of the framework is to demonstrate that the internal audit service is:
 - meeting its aims and objectives
 - compliant with the CIPFA Code of Practice
 - meeting internal quality standards
 - effective and efficient, continuously improving
 - adding value and assisting the organisation in achieving its objectives.
39. The performance and the effectiveness of internal audit is monitored by the Service Manager Internal Audit to ensure that it improves over time, in terms of both the achievement of targets and generally in terms of the quality of the service provided to the user and to identify areas for improvement.
40. Table 3 below outlines the seven indicators agreed for 2013/14, including the key indicator covering achievement of the IA operational plan and the results achieved.

Table 3 – Internal Audit Performance Indicator Results 2012/13

	Indicator	Target	Mid Year Results	Year End Results
1	Recommendations agreed for implementation	95%	95%	98%
2	Final reports issued on/ahead of time	85%	88%	92%
3	Projects completed within budgeted time allowance	85%	88%	89%
4	Target met for issue of draft report after end of fieldwork	85%	88%	93%
5	Follow-up undertaken	100%	100%	100%
6	Plan achieved for Key Control reviews	100%	100%	100%
7	Plan achieved overall (Key indicator)	90%	45%	92%

Analysis of Results

41. All of the targets have been met, 5 (71%) have been exceeded.

Table 4 – Corporate Audit Indicators

	Indicator	Target	Mid Year Results	Year End Results
1	Implementation of recommendations	90%	84% (expected to be 97%)	74% (expected to be 97%)
2	Auditee response times to draft reports within 4 weeks	80%	45%	53%
3	Auditee response times to follow ups within 4 weeks	80%	33%	62%

Analysis of Results

42. None of the corporate targets have been met.
43. Whilst the implementation of recommendations has not met the target of 90%, it is expected to be 97% once all recommendations planned for implementation or in progress of being implemented have been fully completed.
44. During 2012/13 auditees were given one week longer to respond to draft reports (increasing from 3 weeks to 4 weeks) in an attempt to improve response times however this appeared to have had a negative rather than a positive impact as only 45% achieved the target in 2012/13 in comparison to 47% in 2011/12. This was picked up in the Lean Review of Internal Audit processes undertaken in 2012/13 and an Action Planning meeting was introduced in 2013/14 as a result two weeks after the draft report is issued to agree actions to enable reports to be finalised in a more timely manner. This has successfully improve this indicator for 2013/14 however it is still significantly below the target.
45. The year end result of auditee response times to follow ups within 4 weeks (increased from 2 weeks in 2011/12 again in an attempt to improve response times) has not met the target although it has improved from 39% in 2012/13.

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June 2014