



Report for: ACTION
Item Number: 09

Contains Confidential or Exempt Information	NO
Title	2012/13 Head of Audit Annual Report
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Portfolio	Finance & Performance, Cllr Yvonne Johnson
For Consideration By	Audit Committee
Date to be Considered	27 th June 2013
Implementation Date if Not Called In	
Affected Wards	All
Area Committees	N/a
Keywords/Index	Internal audit, annual report,

Purpose of Report:

To report on the work of Internal Audit for 2012/13 and to provide an opinion on the overall adequacy and effectiveness of the control environment during the year in accordance with the Chartered Institute of Public Financial Accountants (CIPFA) Code of Practice for Internal Audit.

1. Recommendation

The Audit Committee is asked to approve the use of the opinion statement by the Council in support of its Annual Governance Statement included with the statement of accounts for the year ended 31 March 2013.

2. Reason for Decision and Options Considered

This is a programmed report in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

3. Key implications

It is my opinion that we can provide reasonable assurance that the system of internal control that has been in place at Ealing Council for the year ended 31 March 2013 accords with proper practice. In addition, that corporate governance arrangements comply with proper practice (Appendix 1 provides further detail).

4. Financial

The Head of Audit Opinion supports the AGS which is published in the 2012/13 accounts.

5. Legal

The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

6. Value For Money

Compliance with best practice guidance ensures that the requirements of the Accounts and Audit Regulations 2011 will be met.

7. Sustainability Impact Appraisal

Not applicable

8. Risk Management

The Council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The resources and work plan of the internal audit section are informed by a risk based approach. This involves meeting with senior officers to discuss risk areas that may impact on the delivery of their service objectives.

9. Community Safety

None.

10. Links to Strategic Objectives

The Internal Audit Plan focuses on providing assurance that systems are in place to aid the achievement of the councils strategic objectives.

A strong governance framework is a key element of achieving these objectives and the Head of Audit Opinion is used to inform the Annual Governance Statement.

11. Equalities and Community Cohesion

No equality impact assessment has been undertaken as the report does not affect the general duties of the Equalities Act 2010.

12. Staffing/Workforce and Accommodation implications:

None.

13. Property and Assets

None.

14. Any other implications:

None.

15. Consultation

My opinion is derived from the work of internal and external audit, risk management, review agencies, inspectorates and the representations from senior managers in respect of the control systems for the areas under their responsibility.

16. Timetable for Implementation

The Head of Audit Opinion is presented to the Audit Committee on 27 June 2013

17. Appendices

- Appendix 1: London Borough of Ealing, Head of Audit Opinion, 2012/13
- Appendix 2: Summary of outcomes of KFS audits 2012/13
- Appendix 3: Internal Audit Performance Measures as at 31/03/13
- Appendix 4: Quality Assurance

18. Background Information

- Accounts and Audit (Amendment) (England) Regulations 2011
- Internal Audit Performance Report Q4
- Risk Management Performance Report Q4

Appendix 1

Background

1. The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
2. The Chartered Institute of Public Financial Accountants (CIPFA) Code of Practice for Internal Audit requires the Head of Internal Audit to provide an opinion on the overall adequacy and effectiveness of the control environment during the year. The control environment comprises of the systems of
 - Governance
 - Risk management; and
 - Internal control.

Governance

3. Governance comprises the systems and processes, culture and values for the direction and control of the authority and its activities. The effectiveness of the governance framework is measured through a governance self assessment using the CIPFA SOLACE governance framework
4. The Annual Governance Statement is also used to inform the effectiveness of the governance framework

Risk Management

5. Everything that we do as an organisation involves a degree of risk whether it is managing a project, purchasing new systems and equipment, determining priorities, or taking decisions about the future of our Borough. It is therefore an essential part of good governance that we manage these risks effectively. Effective Risk Management helps us to:
 - Successfully achieve corporate priorities and objectives by capitalising on opportunities and minimising threats.
 - Strengthen our corporate governance and internal control framework.
 - Improve our partnership arrangements.
 - Embed risk management into corporate processes including financial and strategic planning.
6. Members and officers have defined roles and responsibilities in respect of risk management. There are clear reporting lines to Corporate Board and members for risk management updates

Internal Control

7. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it 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 authority'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.

8. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the organisation who have responsibility for the development and maintenance of the internal control environment and also by comments made by the external auditors and other review agencies and inspectorates in the annual audit letter and other reports.

Internal Audit Plan 2012/13

9. The 2012/13 Audit Plan which was agreed by the Audit Committee on 20 March 2012 consisted of 1,059 days and 129 audits.
10. The Audit Plan is split into two key areas. Key systems and other audits. One key financial systems audit, Asset Management, was completed with limited assurance.
11. This was primarily due to a number of exceptions identified between data held on local asset registers and data held on Logotech. However, management have accepted all recommendations and nominated responsible officers to address the issues raised.
12. Details of outcomes for all KFS audits are set out at Appendix 2.

Internal Audit Performance

13. The Audit Committee approved performance indicators and targets for 2012/13. The indicators reflect the Internal Audit Service's emphasis on reporting progress and client assessment of quality.
14. Audit Committee along with the Audit Board regularly reviewed performance against these targets. Performance against targets as at 31 March 2013 is shown in Appendix 3, along with comparative outturns for previous years.
15. The key indicator is % of Plan Completion as at 31 March as measured by the issue of draft reports. The target was set at 95% which is the minimum which must be attained to provide a sufficient basis for the development of the 2012/13 annual opinion.
16. At 31 March 2013, 95% (31 March 2012: 95%) of the Plan had been completed.

Head of Internal Audit Annual Opinion Statement year ended 31 March 2012/13

17. I have conducted my audits both in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK, 2006. (Appendix 4)
18. My opinion is derived from the work of internal and external audit, risk management, review agencies, inspectorates and the representations from senior managers in respect of the control systems for the areas under their responsibility.
19. It is my opinion that we can provide reasonable assurance that the system of internal control that has been in place at Ealing Council for the year ended 31 March 2013

accords with proper practice. In addition, that corporate governance arrangements comply with proper practice.

20. Additionally, there were no significant control weaknesses identified by Internal Audit as the result of its work carried out during the period 1 April 2012 - 31 March 2013.

Appendix 2 - Summary of Outcomes of Audits 2012/13

1. The 2012/13 Audit Plan which was agreed by the Audit Committee on 20 March 2012 consisted of 1,059 days and 129 audits.
2. The Audit Plan is split into two key areas. Key Financial Systems (KFS) and general audits. Set out in Table 1 below are the results of the KFS audits.

Table 1 - KFS Outcomes	
Audit	Assurance Level
Asset Management	Limited
General Ledger	Substantial
Payroll and Employee Expenses	Substantial
Housing Rents Income and Debtors	Substantial
Non Pay expenditure/ Creditors	Substantial
Housing & Council Tax Benefit	Substantial

3. Set out in Table 2 below is a complete list of all audits which received 'Limited' Assurance.

Table 2 – 2012/13 Internal Audit Plan Limited Assurance Reports

2012/13 Schedule of No/Limited Assurance Reports				
E&CS	Regen & Housing	Corporate Resources	Schools	
Community Centres (Greenford, Northolt Village, West Acton, Perevale)	Former Client Arrears (Housing)	Network Infrastructure	Schools BACS Walkthrough (ICT Audit)	Our Lady of the Visitation RC Primary School
Chargeable Garden Waste	Temporary Accommodation	Corporate Documents & Storage (Greenford)	St Anselm's RC Primary School	Oldfield Primary School
	Voids	Oracle Single Sign On	St Gregory's RC Primary School	Elthorne Park High School
	Bed & Breakfast Accommodation	Service Ealing Contract Management	Brentside High School Post 16-19 Education Funding Audit	Northolt High School Post 16-19 Education Funding Audit
	Food Approvals	Insurance Service	Villiers High School	
	Ealing in London	Asset Management		
	Licensing			

Appendix 3 - Internal Audit Performance Measures as at 31 March 2013

Measure	31 March 2013		Mar 12	Mar 11
	Target	Actual		
Deloitte				
% of draft reports issued 12 days after fieldwork	95	86	85	85
% of drafts issued (Allocation + 20 days)	95	83	84	81
% of final reports issued 5 days after responses	100	98	98	98
% of QA forms rated 'satisfactory' or above.	90	91	87	NM
% of Plan Completion (draft reports issued)	95	95	95	95

Commentary

In general, a positive direction of travel was noted for the set of performance indicators over the 3-year period.

Appendix 4 - Quality Assurance (CIPFA Code of Practice for Internal Audit in Local Government, 2006)

A Code of Practice for Internal Audit in Local Government was approved by CIPFA in 2006. The internal audit functions in all Principal Local Authorities must comply with this code. Some aspects of this code are discussed below.

1. Standard 1 relates to the Scope of Internal Audit. The Terms of Reference are stated in Internal Audit Manual to reflect the emphasis on review of the control environment and the results of the council's risk management process by Internal Audit and clarification of management responsibilities for Fraud, Bribery & Corruption.
2. Standard 2 concerns Independence. One of the requirements is that "the position of the Head of Internal Audit in the management structure should reflect the influence he or she has on the control environment and he or she should not report or be managed at a lower organisational level than the corporate management team". The Head of Audit is managed by the Director of Corporate Finance, however, the Head of Audit also has unfettered access to the Executive Director of Corporate Resources and the Chief Executive
3. Standard 3 places emphasis on ethics and the principles that must be observed by all internal auditors in carrying out their tasks — integrity, objectivity, competence, and confidentiality. Each auditor is required to act in an ethical manner and all auditors are required to sign a register of interests.
4. Standard 4 relates to Audit Committees and outlines the purposes of the Audit Committee and the relationship between the Committee and the Internal Audit function. The Terms of Reference of the Audit Committee are reviewed annually.
5. Standard 5 relates to relationships with management, members, other auditors and review bodies. This is in accordance with our existing methodology. The Head of Audit maintains and builds relationships with various parties relevant to Ealing Council and Internal Audit.
6. Standard 6 relates to Staffing, Training and Continuing Professional Development. It emphasises the appropriate staffing of Internal Audit by numbers and competence and responsibility to undertake CPD. As part of the appraisal process training needs are identified and actioned.
7. Standard 7 relates to Audit Strategy and Planning. This is a high level statement of how the Internal Audit service will be delivered and how the Audit Plan will be developed. The Audit Plan is delivered through a mix of in house staff and an outsourced contract. Development of the risk based audit plan includes consultation with officers across the council to identify high risk areas, analysis of the departmental risk registers for the organisation, review of external reports and review of previous audit reports. The Audit Plan is reviewed by Audit Board and Corporate Board and is presented for approval by the Audit Committee.

8. Standard 8 refers to Management of Audit Assignments. All audit work is risk based, subjected to a review process and utilises standard documentation. Time retention periods for different types of audit documents have been discussed and an archive policy is in place.
9. Standard 9 concerns Due Professional Care. The Head of Audit ensures that all internal audit staff regularly complete a declaration of interest and conflict of interest statement. Continuing professional development is also undertaken through formal courses or on the job training.
10. Standard 10 deals with Reporting. The standard prescribes principles to be observed in effective report writing, procedures for reporting and follow-ups; it also states the requirement for the Head of Audit to provide the annual report on the control environment. Our current practices meet this standard, including the highlighting of residual risks where recommendations are not agreed. There is also a requirement for the Head of Audit to make arrangements for interim reporting to the organisation in the course of the year to address any emerging issues in respect of areas to be covered in the annual report. This is covered as part of the quarterly reporting process to the Audit Board and Audit Committee and also during regular one to one meetings with the Director of Finance and Audit.
11. Standard 11 deals with Performance, Quality and Effectiveness. It emphasises the keeping of an Internal Audit Manual and reviewing work of staff. There is also a requirement for the Head of Audit to have in place a performance management and quality assessment framework to demonstrate the effectiveness of Internal Audit. The Audit Manual is maintained and kept updated by the Head of Audit to reflect any changes in working practices. These changes are designed to focus scarce audit resources on high risk areas and enabled auditors to carry out efficient and relevant audit testing.