



30 June 2014

Title: Internal Audit Annual Report 2013/14

Report of: Chief Internal Auditor

Purpose of the Report

1. To inform the committee about work undertaken by the Internal Audit Service for 2013/14 and give an overall assessment of the adequacy of the Company's internal control systems based on this work.

Background

2. The audit plan for 2013/14 was approved by the Audit Committee on 3rd July 2013 and set the approach to providing a risk-based focus for the deployment of internal audit resources.

Performance Management and Quality Assurance

3. The position for the year highlights the completion of 123% of the audit plan, in terms of actual audit hours against planned hours (121% for 2012/13). Other relevant performance information includes: -
 - Following each audit review a customer satisfaction survey is issued to the respective manager. A score is calculated from returned surveys and for 2013/14 a 100% satisfaction was achieved (100% for 2012/13).
 - Every audit is allocated a fixed budget of hours or days for the audit to be completed within. There is a target of completing 90% of all audits within the budgeted time plus 10%. During 2013/14 92% of all audits were completed within this target (86% for 2012/13).
 - A target is also set for the number of audit recommendations implemented of 75%. During 2013/14 76% of audit recommendations had been implemented (81% for 2012/13).
4. The 2013/14 Internal Audit Plan agreed twenty-two audits to be carried out in the year. All audits have now been fully completed with the exception of one which is currently at the draft report stage. Further information is attached at Appendix 1.
5. The Chief Internal Auditor has in place a quality review process which appraises:
 - The quality of audit work
 - The quality of supervision

- Compliance with UK Public Sector Internal Audit Standards (UKPSIAS)
 - Compliance with the Internal Audit Service's Local Audit Manual
 - The ways in which the Internal Audit Service benefits the organisation
 - Achievement of performance standards
6. The process involves all audit work being reviewed by the Audit & Risk Manager to ensure it is of a high and consistent quality. The Chief Internal Auditor sample checks this process and gives feedback to the auditors involved. An action plan is in place for the continued development of the Audit Service which accommodates these findings.
 7. A summary of this assessment and the actions for improvement is attached at Appendix 2.

Main Audit Findings

Overall Assessment

8. Based on evidence arising from the internal audit activity during 2013/14, the opinion of the Chief Internal Auditor is that the Company's internal control systems are considered to be effective.
9. This opinion is based on all audit activity throughout the year, which has been reported to the Audit Committee on a quarterly basis.
10. For 2013/14 twenty audits concluded that systems and procedures in place were operating well or satisfactory, with only one audit identifying significant weaknesses.
11. The standard conclusions in audit reports are defined as:
 - Operating well - where the system is effective and no recommendations or only a few minor points have been raised.
 - Satisfactory - where the system works but there are a number of recommendations or where issues have not been fully addressed from the previous audit.
 - Significant weakness - where the system is flawed and there are a large number of recommendations or at least one that is of high significance.
12. All audit recommendations will be followed up by internal audit in line with approved timescales based on an assessment of risk; for those audits with significant weaknesses this will be within the next twelve months.

Service Review

13. It is the responsibility of management to install and maintain effective internal control systems to ensure sustained and effective operations. The role of the Internal Audit Service is to assist managers in the effective discharge of this responsibility and in so doing, deliver the objectives of the Company and its associated partners.
14. Internal Auditors have received full co-operation from all employees involved in the areas under review and all audit recommendations have been satisfactorily addressed by management.

Link to Values

15. This report links to the corporate value of being motivated, trained, and committed across the company.

Impact on Tenants

16. No impact directly from this report.

Risk Management Implications

17. This report provides additional assurance that effective internal controls exist to manage risks that the Company has exposure to.

Financial Implications

18. There are no financial implications arising from this report.

Equality and Diversity Implications

19. There are no Equality and Diversity implications associated with this report.

Health Implications

20. There are no Health implications associated with this report.

Environmental Implications

21. There are no Environmental implications associated with this report.

Value for Money Implications

22. There are no Value for Money implications associated directly with this report.

Consultation carried out

23. No consultation has been carried out in respect of this report.

Impact on Customers

24. Implementation of the priorities will provide our customers with a better service in terms of customer care.

Recommendation

25. The Committee is requested to note this report.

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Internal Audit Plan 2013/14	Risk		Planned Days	Planned Report to Committ	Current Position	Opinion
	Rating	Score				
CORPORATE SERVICES						
1 Capital Programme	High	258	10.7	1	Final Report Issued	Operating Well
2 Counter Fraud Arrangements	Medium	178	6.7	1	Final Report Issued	Satisfactory
3 Performance Framework	Medium	157	6.7	1	Final Report Issued	Operating Well
4 Governance	Medium	153	5.3	1	Final Report Issued	Satisfactory
5 Asbestos Management	Medium	152	9.3	1	Final Report Issued	Satisfactory
6 Business Continuity Arrangements	Medium	159	5.3	2	Final Report Issued	Satisfactory
7 Human Resources	Medium	155	9.3	2	Final Report Issued	Significant Weakness
8 Complaints	Low	93	6.7	2	Final Report Issued	Satisfactory
9 Creditors	High	255	10.0	3	Final Report Issued	Operating Well
10 Budget Setting and Monitoring	High	250	5.3	3	Final Report Issued	Operating Well
11 Main Accounting	High	266	5.3	3	Final Report Issued	Satisfactory
12 Information Security Management	Medium	195	9.3	3	Final Report Issued	Satisfactory
13 Health and Safety	Medium	151	4.0	3	Final Report Issued	Satisfactory
14 Company Payroll	High	255	6.7	4	Final Report Issued	Satisfactory
15 Insurance Arrangements	High	218	3.3	4	Final Report Issued	Operating Well
16 Corporate IT	High	239	1.3	4	Final Report Issued	Satisfactory
			105.3			
CUSTOMERS & COMMUNITIES						
17 Keelman Homes	High	227	13.3	1	Final Report Issued	Satisfactory
18 Rent Arrears	High	252	20.0	2	Final Report Issued	Satisfactory
19 Rent Collection	High	235	9.3	3	Final Report Issued	Operating Well
20 Tenancy Allocation and Lettings	High	270	13.3	4	Final Report Issued	Satisfactory
21 Repairs	High	269	12.0	4	Draft Report Issued	
22 Housing Establishments	High	266	12.0	4	Final Report Issued	Satisfactory
			80.0			
GENERAL						
Audit Committee			6.7			
General Advice, Consultancy and Systems Review			4.0			
			10.7			

TOTAL DAYS	196
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Risk Score Categories:

High: >210

Medium: 150-210

Low: 0 - 149

Assessment of the Effectiveness of the Internal Audit Service

- *Definition of Internal Auditing*

This section includes how the principles of independence and objectivity are embedded and how internal audit employs a disciplined and systematic approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation.

- *Code of Ethics*

This section covers how internal auditors conform with the principles of integrity, objectivity, confidentiality and competency.

- *Attribute Standards*

This section covers the purpose, authority and responsibility of internal audit and requirements for proficiency and due care. It also includes quality and improvement practices.

- *Performance Standards*

This section includes how audit activity is managed and planned and also communications between internal audit, management and the Audit Committee.

Example evidence of compliance:

Quality Assurance & Improvement Programme
Internal Audit Charter
Local Audit Manual
Internal Audit Charter
Annual Audit Plan & Strategy
Certificates of Independence
Achievement & Development process
Team meetings and training
Audit Committee update reports on internal audit activity
Assignment working papers

Improvement action plan arising from Self-Assessment:

1. Bribery Act training to be delivered to Internal Audit staff.
2. Develop expertise in the specific areas of contract auditing and computer assisted audit techniques.
3. Undertake full review of Local Audit Manual guidance for auditors
4. Development of a formal approach for auditors when undertaking consultancy engagements
5. Develop and implemented retention requirements for all types of audit records and a policy on the release of audit findings to outside parties.