

ISLE OF ANGLESEY COUNTY COUNCIL

COMMITTEE:	AUDIT COMMITTEE
DATE:	23 JULY 2013
TITLE OF REPORT:	INTERNAL AUDIT ANNUAL REPORT 2012/13
PURPOSE OF REPORT:	FOR INFORMATION
REPORT BY:	AUDIT MANAGER
ACTION:	NONE

1. INTRODUCTION

1.1 The following report summarises the work of the Internal Audit Section for 2012/2013. The Audit Manager makes regular progress reports in year to the Audit Committee which allows an on-going evaluation of the overall internal control framework as reflected within Audit coverage.

2. OUTPUT GENERATED DURING THE YEAR

2.1 The following table gives a comparison of the planned number of audits with the actual audits carried out. As in any year, in 2012/13 it was necessary to amend the audit plan to take account of various factors throughout the year. Again this year, these factors mainly related to additional work being required to meet emerging risks and referrals. One referral in this period was particularly resource intensive and took up the equivalent of 50% of an Auditor's available programmed time against the Plan.

Analysis of Planned and Actual Audits Carried Out During 2012/2013

Status of Report	Original Number Planned	2012-13 Plan Reports Issued	Other Reports Issued
2012-13			
Final	63	33	13
Draft		5	0
Nearing Draft		7	0
2011/12			
Final		2	
TOTAL	63	47	13






2.2 In all 60 reviews (Final and Draft/nearing Draft) were carried out during 2012/2013, compared to 61 the previous year. The total, therefore, is comparable to 2011/12. This figure includes an additional thirteen Final Reports issued in 2012/13 which were not originally planned for this period but were necessary for risk and / or compliance purposes or as the result of work relating to referrals.

2.3 The additional thirteen reviews in part replaced the reviews in the 2012/13 Operational Plan not started in the period. Of these reviews not started: six were postponed due to assurance provided by other third party assurance providers or due to the level of materiality in relation to other areas of audit concern. Six areas had not progressed as envisaged in the period and, therefore, work in 2012/13 was postponed and in four areas we had hoped to use the Corporate Risk Register as the basis of our work but were unable to do so due to its status during 2012/13. The remaining eleven reviews were postponed due to the additional workload in year and all of these have been carried forward to be included in the 2013/14 Internal Audit Operational Plan.

- 2.4** All the key financial reviews in the plan were completed in final or draft format and forwarded to the External Auditor in March 2013.
- 2.5** Although work is planned to be carried out in individual years in the strategic and annual plans, individual jobs do carry forward from one year to the next, particularly the larger audits or audits which commence close to the end of the financial year. This is reflected in the fact that at the end of the period there were five draft reports awaiting finalisation and seven reviews which were still work in progress. These reviews will be completed in the first quarter of 2013/14.

3. PERFORMANCE INDICATORS

- 3.1** Each year the Council's Internal Audit Service participates in pan Wales benchmarking against indicators relating to cost and output. This benchmarking is carried out in May / June each year and, therefore, the results for 2012/13 were not available in time to be included in this annual report.
- 3.2** When the results are published they will be included in the next Internal Audit progress report thereafter.
- 3.3** Internal Audit Service performance against internal targets is reported to each Audit Committee as part of the Internal Audit Progress Report. For the period 01 April 2012 to 31 March 2013 the performance against internal targets was as follows:

Performance Measure	Target 2012/13	Actual for Period	Target Status
% of 2012/13 audit plan completed to draft in year (63 reviews in original plan – of which 4 were removed from plan as not being necessary / possible in year – leaving 59 possible reviews). Performance: 5 to Draft in period; 33 Finals and 7 WIP nearing draft from 2012/13 and 3 alternative reviews from referrals - Total = 48 reviews substantially completed.	90%	81%	
Overall customer satisfaction levels from questionnaires.	90%	100%	
% of High & Medium IA recommendations implemented – from 01/04/10 as at 03/04/13.	80%	53%	
Number of planned reviews of Identified High Corporate Risk Areas. <i>*NB – The progress and status of the CRR precluded the carrying out of a number of these reviews in period.</i>	8	2*	
Two Audit Committee Training Sessions in period.	2	2	

3.4 The percentage of High and Medium recommendations implemented is below target at 53%; however the percentage of High recommendations implemented is higher at 74%. Internal Audit will carry out a review of outstanding recommendations in April 2013 and will again in 2013/14 be working with Services to update the 4Action system with the latest implementation data which it is hoped will show an improvement against target.

4. OVERALL CONCLUSION ON THE AREAS AUDITED

4.1 Table 1 shows the number of reviews undertaken in 2012/13 for which an opinion of either Green; Green/Amber; Red/Amber or Red opinion was given and includes the definition for each assurance level. The table also includes the number of advisory/ referral reviews undertaken;

Table 1

RAG Opinion/ Grade	What is meant by the RAG Opinion/Grade	System/ Risk 2012/13	Schools 2012/13
Green	Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.	6	0
Green Amber	Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However, we have identified issues that, if not addressed, increase the likelihood of the risk materialising.	6	3
Red Amber	Taking account of the issues identified, whilst the Authority can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.	2	0
Red	Taking account of the issues identified, the Authority cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed.	3	0
Advisory/ Referral	Advisory review designed to provide best practice advice – No formal opinion.	13	0
Total		30	3

4.2 The overall grades based on all the work carried out are:

- System/Risk reviews average of 'Green Amber' for 2012/13 which although is positive assurance is a lower average opinion that the 'Green' recorded for 2011/12; and
- School reviews average of 'Green Amber' for 2012/13 which is again a lower average opinion that the 'Green' recorded for 2011/12.

4.3 Both grades for systems and schools of 'Green Amber' Audit Opinions translate to a minimal to low risk to the Authority, based on the scope of the work carried out, the action recommended to management being implemented and those systems continuing to operate as intended.

4.4 The Audit Manager is, however, aware of areas where significant weaknesses in control would prevent the Council placing reasonable reliance on the systems of internal control in respect of those systems reviewed during the year. These areas were:

- **Business Continuity** – Recommended actions to strengthen controls in this area have been collated from a number of assurance provider reports, including those of Internal Audit and have been included in a Corporate Information Management Action Plan. A Project Group was set up in September 2012 to determine the best approach to implementing the required actions identified. At the end of 2012/13 the work of the Project Group was on going. The Council still does not have a formal ICT Disaster Recovery Policy and work was still in progress at the end of the period to finalise the Council's Business Continuity arrangements.
- **Risk Management** - The Council is in the process of developing its Risk Management Framework and, in September 2012 the Audit Committee recommended the adoption of the draft Risk Management Strategy and Draft Guidance to the Executive. The Executive subsequently adopted the Strategy and Guidance at its meeting held on 15 October 2012. The period also saw a joint Audit and Scrutiny Committee Risk Management training session. The Risk Management Work Group has yet to consider new and emerging risks or to review the Service level Risk Registers.

Work has progressed on the Corporate Risk Register but at the end of the period the Corporate Risk Register still lacked recorded mitigating actions and calculated residual risk scores. Discussions were still on going as to the reporting of the Corporate Risk Register when it is in a more complete format.

- **Governance** - Issues relating to non-compliance with key corporate policy and procedure were identified again in 2012/13, for example in relation to corporate procurement. Review also found that there has been limited use of the Council's system for electronic sign off of policies which records users as having read, understood and agreed to abide by policies. Without such record of sign off it is more difficult to show that the policies have been adequately disseminated to relevant staff. A report concerning these issues was issued in 2011/12, however, a number of key recommendations remained unimplemented at the end of 2012/13.

Policy and procedure and compliance with them is a key component of the Council's Governance framework. Failure to adequately ensure that staff are made aware of such policies and procedures increases the risk of non-compliance.

- **Information Management** – A review of the Council's Information Management arrangements were reported in June 2012 and concluded that 'the Council's current arrangements for the management of its information asset is weak and limit the Council's ability to improve.' Internal Audit undertook three reviews in 2012/13 in the areas of Modern Records Management, Data Security and Business Continuity and reported significant weaknesses in these areas. As stated above, under Business Continuity these weaknesses were at the end of the period in the process of being addressed by a Project Group set up for this purpose. During 2012/13, there have continued to be incidences of breaches of the Data Protection Act and a number have been reported to the Information Commissioner's Office.

Information Management, therefore continues to be a risk to the Authority in terms of reputation and financially in terms of the potential for significant fines to be imposed.

These are considered important issues for the Council which need on-going work to address them in 2013/14.

- 4.5** It should be noted that any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The audits undertaken and completed did not identify any other areas of concern which are considered significant or business critical for the Council as a whole beyond those stated at 4.4 above.

5. STATEMENT ON INTERNAL CONTROL

- 5.1** The outcome of all completed Internal Audit reports is reported to the Audit Committee via the Audit Manager's quarterly Internal Audit Progress reports. Any system based review receiving a 'Red' assurance opinion, is reported in detail to the Audit Committee.
- 5.2** Three such reports were presented to the Audit Committee in 2012/13. These reviews related to Business Continuity, Data Security and Modern Records Management. The recommendations from all of these reports have been included in the Corporate Information Management Action Plan referred to in paragraph 4.6 above under Business Continuity.

Review Title	Service Area	IA Plan Year	Status	RAG Opinion
Risk Based / System Reviews		2011-12		
Industrial Units Rents	Property	2011/12	FINAL	GREEN/AMBER

Schools		2011-12		
Ysgol Llanfechell	Education	2011/12	FINAL	GREEN/AMBER

Review Title	Service Area	IA Plan Year	Status	RAG Opinion
Fixed Asset Report	Finance	2012/13	FINAL	Verification
Follow Up High Recommendations	Corporate	2012/13	FINAL	Reasonable Progress
Information Governance – Follow Up	Corporate	2012/13	FINAL	Little Progress
Penalty Charge Notices	Finance	2012/13	FINAL	ADVISORY
Meals on Wheels	Provider Unit	2012/13	FINAL	RED/AMBER
WG Free Breakfasts	Education	2012/13	FINAL	GREEN
Outcome Agreements - Property	Property	2012/13	FINAL	GREEN
Out of County Fees	Social Services	2012/13	FINAL	ADVISORY
Business Continuity	ICT/Planning	2012/13	FINAL	RED
Data Security	ICT/Legal	2012/13	FINAL	RED
Oriel Ynys Môn	Leisure	2012/13	FINAL	GREEN/AMBER
Modern Records Management	Lifelong Learning	2012/13	FINAL	RED
BMU Procurement	Housing	2012/13	FINAL	ADVISORY
Carbon Targets and Energy Efficiency	Property	2012/12	FINAL	GREEN
Follow Up – School Recommendations	Education	2012/13	FINAL	Little Progress
Corporate Procurement	Corporate	2012/13	FINAL	ADVISORY
Direct Payments – Soc. Services	Social Services	2012/13	FINAL	RED/AMBER
School Thematic Review	Education	2012/13	FINAL	ADVISORY
National Fraud Initiative	Corporate	2012/13	FINAL	GREEN/AMBER
Budget Setting & Monitoring	Corporate	2012/13	FINAL	RED/AMBER
Public Transport	Transportation	2012/13	FINAL	GREEN/AMBER
Car Park Income	Highways	2012/13	FINAL	GREEN
Council Tax	Finance	2012/13	FINAL	GREEN/AMBER
National Non Domestic Rates	Finance	2012/13	FINAL	GREEN/AMBER
Housing Benefit	Finance	2012/13	FINAL	GREEN/AMBER
Sundry Debtors	Finance	2012/13	FINAL	GREEN/AMBER
Creditors	Finance	2012/13	FINAL	GREEN
Treasury Management	Finance	2012/13	FINAL	GREEN
Student Finances	Education	2012/13	FINAL	ADVISORY
Case Files Compliance	Social Services	2012/13	FINAL	ADVISORY
Members' Allowances	Corporate	2012/13	DRAFT	FOLLOW-UP
Payroll and Overtime	Finance	2012/13	DRAFT	GREEN/AMBER
Accounting System	Finance	2012/13	DRAFT	GREEN
Cash Receipting	Finance	2012/13	DRAFT	GREEN
Housing Rents	Housing	2012/13	DRAFT	RED/AMBER
Maritime - Income	Highways	2012/13	WIP	N/A
Civica Implementation	Finance	2012/13	WIP	N/A

Schools				
Ysgol Y Bont	Education	2012/13	FINAL	GREEN/AMBER
Ysgol Rhosybol	Education	2012/13	FINAL	GREEN/AMBER
Ysgol Bodffordd	Education	2012/13	FINAL	GREEN/AMBER
Ysgol David Hughes	Education	2012/13	WIP	N/A
Ysgol Gyfun Llangejni	Education	2012/13	WIP	N/A
Ysgol Biwmares	Education	2012/13	WIP	N/A
Ysgol Llanfachraeth	Education	2012/13	WIP	N/A
Ysgol Kingsland	Education	2012/13	WIP	N/A

Referrals				
Referral Report 1 12-13	Human Resources	2012/13	FINAL	N/A
Referral Report 2 12-13	Property	2012/13	FINAL	N/A
Referral Report 3 12-13	Property	2012/13	FINAL	N/A
Referral Report 4 12-13	Social Services	2012/13	FINAL	N/A
Referral Report 5 12-13	Property	2012/13	FINAL	N/A
Referral Report 6 12-13	Lifelong Learning	2012/13	FINAL	N/A
Referral Report 7 12-13	Social Services	2012/13	FINAL	N/A
Referral Report 8 12-13	Finance	2012/13	FINAL	N/A
Referral Report 9 12-13	Education	2011/12	FINAL	N/A
Referral Report 10 12-13	Transportation	2012/13	FINAL	N/A
Referral Report 11 12-13	Leisure	2012/13	FINAL	N/A
Referral Report 14 12-13	Central	2012/13	FINAL	N/A
Referral Report 15 12-13	Highways	2012/13	FINAL	N/A