



Stevenage Borough Council

2012/13 Annual Assurance Statement

and

Internal Audit Annual Report

29 May 2013

Recommendation

Members are recommended to note the Annual Assurance Statement and Internal Audit Annual Report

Additionally, Members are requested to seek assurance from management that the scope and resources for internal audit are subject to no inappropriate limitations

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1. Purpose and Background

Purpose of Report

1.1 The purpose of this report is to:

- document and communicate internal audit's overall opinion on the adequacy and effectiveness of the Council's control environment, commenting on significant matters and key themes
- summarise the audit work from which the opinion is derived
- summarise the performance of the internal audit service.

Background

1.2 The provision of an annual opinion to the Council on internal control is a key duty of the Shared Internal Audit Service (SIAS) Head of Assurance and is timed to support the production of the Council's Annual Governance Statement.

1.3 Reporting the work of internal audit to Council Members 'charged with governance' provides them with an opportunity to review and monitor this activity and gain assurance that its internal audit function is fulfilling its statutory obligations. This is an essential component of corporate governance.

1.4 Our opinion is based on the work of the audit service in the 2012/13 financial year. We are grateful for the co-operation and support we have received from all those who have engaged with the audit process, particularly during these challenging times.

2. Annual Assurance Statement 2012/13

Context

2.1 *Scope of responsibility*

The management of the Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

The management of the Council is also responsible for ensuring that there is a sound system of internal control, which includes arrangements for managing risk.

2.2 *Control environment*

The Council's control environment comprises three key areas: internal control, governance, and risk management arrangements.

Together these areas are designed to manage risk to a reasonable level rather than eliminate risk completely. The purpose of these arrangements is to help ensure that the Council's policies, priorities and objectives are achieved.

2.3 *Review of effectiveness*

As a pre-requisite for giving an assurance opinion on the overall adequacy and effectiveness of the Council's control environment, the Head of Assurance is required to confirm the effectiveness of the internal audit service and therefore its fitness for purpose to carry out work that informs the opinion.

In order to confirm the effectiveness of internal audit the Head of Assurance has completed an exercise to ensure the activity of the internal audit service has been carried out in accordance with the new Public Sector Internal Audit Standards which came into effect on 1 April 2013. These new standards, issued by CIPFA, are based on the Institute of Internal Auditors International Standards and are mandatory. They are designed to underpin the Internal Audit arrangements within the Council and set standards for good practice.

The Head of Assurance is able to report a substantial level of compliance with the Public Sector Internal Audit Standards and considers the internal audit service to be effective.

The Head of Assurance does not consider there to be any significant deviations from the Public Sector Internal Audit Standards which warrant inclusion in the Council's Annual Governance Statement. Appendix C of this report contains a table setting out areas where further action needs to be taken in order to ensure full compliance.

Annual Assurance Statement and Internal Audit Annual Report Stevenage Borough Council

The review of effectiveness has also comprised a follow up report to the SIAS Board on the recommendations made as part of the SIAS external peer assessment carried out in March 2012.

2.4 Confirmation of independence of internal audit and assurance on limitations

The Head of Assurance confirms that during the year there have been no matters arising which have threatened the independence of the internal audit function. The Head of Assurance also confirms that there have been no inappropriate scope or resource limitations on the internal audit function during the year.

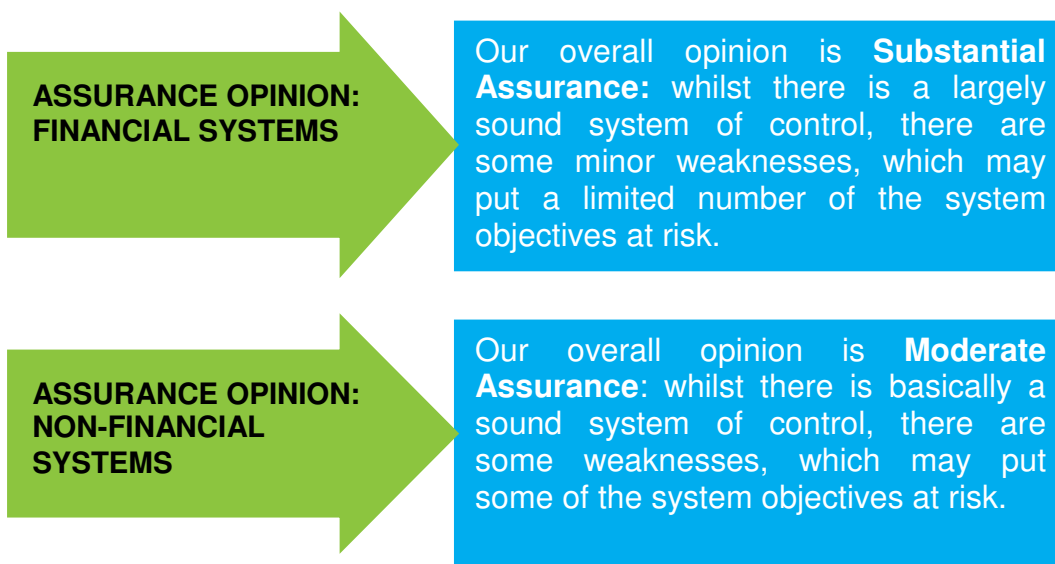
2.5 Basis of assurance opinion

Our assurance opinion is based on the work carried out by SIAS during the year which has been planned in order to give sufficient assurance on the management of risks within the organisation.

Annual Assurance Statement for 2012/13

2.5 *Assurance opinion on internal control*

From the internal audit work undertaken in 2012/13 it is our opinion that we can provide moderate assurance on the adequacy and effectiveness of the Council's control environment. The assurance is broken down between financial and non-financial systems as follows:



2.6 *Assurance opinion on Corporate Governance and Risk Management*

In our opinion the corporate governance and risk management framework substantially complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This conclusion is based primarily on the follow up of previous year's internal audit recommendations, and the work undertaken by the Council, and reported in its Annual Governance Statement for 2012/13.

**Head of Assurance for the Shared Internal Audit Service
May 2013**

3. Overview of Internal Audit Activity in 2012/13

- 3.1 This section of the report summarises the work of the audit service during the year, highlighting matters of significance in respect of the internal control environment and opportunities for improvement.
- 3.2 Appendix A lists the audit work that was completed in the year and the final position on the agreed audit plan, including the assurance level provided and number of recommendations made. The levels of assurance and priority of recommendations are summarised in the tables below, and include a comparison against 2011/12.

Assurance Level	Number of reports 2012/13 (2011/12 data in brackets)	Percentage of reports 2012/13 (2011/12 data in brackets)*
Full	3 (3)	14% (15%)
Substantial	14 (13)	66% (65%)
Moderate	2 (3)	10% (15%)
Limited	2 (1)	10% (5%)
No	0 (0)	0% (0%)
Not Assessed	9 (0)	
Total	30 (20)	100% (100%)

* Percentage calculation figures excludes reports that were classified as not assessed

Recommendation Priority Level	Number of recommendations 2012/13 (2011/12 data in brackets)	Percentage of recommendations made 2012/13 (2011/12 data in brackets)
High	7 (4)	8% (7%)
Medium	57 (34)	65% (49%)
Merits Attention	24 (27)	27% (44%)
Total	88 (61)	100% (100%)

- 3.3 Significant control weaknesses were identified during the year in relation to the contract management and monitoring arrangements for the Decent Homes and Buildbase Contracts.
- 3.4 The anticipated outcome of the following audits that are at draft report stage have been considered when providing the Assurance opinion, Payroll, Main Accounting and Capital Accounting. At the time of writing this report, these audits had been issued as drafts for discussion. An oral update on these audits will be given at the committee meeting.

- 3.5 The Assurance over the effectiveness of controls does not cover the audit of Decent Homes Payments.

4. Performance of the Internal Audit Service in 2012-13

Performance indicators

4.1 The table below compares the performance in 2012/13 of SIAS at Stevenage Borough Council against targets set by the Board of the Shared Internal Audit Service.

Indicator	Target for 2012/13	Actual to 31 March 2013
1 SIAS Planned Days – percentage of actual billable days delivered against planned billable days	95%	97%* (382 billable days out of 395 possible billable days)
2 SIAS Planned Projects – actual completed projects to draft report stage against planned completed projects	95%	89% (29 projects out of an agreed 33 projects)
3 External Auditors' Satisfaction – the Annual Audit Letter should formally record whether or not the External Auditors are able to rely upon the range and the quality of SIAS' work	Formal Reliance	Achieved
4 SIAS Annual Plan – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the financial year	Deadline met	Achieved
5 Client Satisfaction - client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	100%	100%
6 Head of Assurance's Annual Report – prepared in time to present to the first meeting of each Audit Committee in the financial year	Deadline met	Achieved
7 Number of High Priority Audit Recommendations agreed	95%	100%

Developments in the year

4.2 During 2012/13 a number of operational developments were introduced within SIAS, designed to enhance the service offering:

- Control Risk Self-Assessment model - trialled on certain key financial systems audits at a selection of SIAS clients. This alternative approach places increased reliance on Management's view of the design and operation of key controls to mitigate risk and provides an opportunity to reduce the number of audit days allocated to stable areas of the Council. This can be taken as a saving or reallocated to areas of emerging risk. The approach is being considered for rollout more widely across SIAS clients.
- Benchmarking Reviews – a key benefit of the shared service is its ability to compare processes and controls across clients in order to highlight and cascade areas of sound and efficient practice. For example a Financial Regulations benchmarking review was completed in 2012/13 across all district and borough clients.
- IT, Procurement and Fraud Baseline Assessments – in a similar way to the benchmarking reviews, baseline assessments were completed in 2012/13 in three key areas, across a number of SIAS clients. The work was undertaken by the same team members (PWC in respect of IT) in order to provide increased consistency across clients.
- CFO Emerging Risk Workshop – to support development of annual audit plans, with particular emphasis on identifying areas for joint working, a workshop was held with the Herts CFO's to inform 2013-14 audit plans.

Quality and improvement framework

4.3 During the year the service has operated according to the SIAS quality and improvement framework which is documented in the SIAS Audit Manual. There have been no significant deviations from this framework during the year.

APPENDIX A - FINAL POSITION FOR THE 2012/13 AUDIT PLAN

2012/13 Stevenage Borough Council Audit Plan

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
		H	M	MA		
Key Financial Systems						
Housing Benefits	Substantial	0	2	0	12	Final Report Issued
Payroll - CRSA	Full	0	0	0	12	Draft Report Being Prepared*
Creditors	Substantial	0	0	1	12	Final Report Issued
Debtors	Substantial	0	1	0	12	Final Report Issued
Main Accounting System - CRSA	Full	0	0	0	12	Draft Report Issued*
NNDR	Substantial	0	0	1	12	Final Report Issued
Council Tax	Substantial	0	0	1	12	Final Report Issued
Capital Accounting	Substantial	0	3	1	12	Draft Report Issued
Cash and Payments	Substantial	0	1	3	12	Final Report Issued
Treasury Management	Full	0	0	0	8	Final Report Issued
Housing Rents	Substantial	0	4	2	15	Final Report Issued

APPENDIX A - FINAL POSITION FOR THE 2012/13 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
Operational Audits						
Working Together Themed Audit	Moderate	0	3	7	24	Final Report Issued
Review of Financial Regulations	Not Assessed	N/A	N/A	N/A	5	Final Report Issued
Members Locality Budgets	Substantial	0	6	1	10	Final Report Issued
Local Community Grants Follow Up	Not Assessed	N/A	N/A	N/A	5	Final Report Issued
Car Parks Extended Follow Up	Not Assessed	N/A	N/A	N/A	12	Final Report Issued
Use of Contractors and Consultants	Moderate	1	3	0	12	Final Report Issued
Transfer Station	Substantial	0	1	2	8	Final Report Issued
Safeguarding	Substantial	1	2	2	12	Final Report Issued
Market Rental Income	Substantial	0	0	3	10	Final Report Issued
Repairs and Maintenance Follow Up	Not Assessed	N/A	N/A	N/A	8	Final Report Issued
Officer Interests in Contracts Follow Up	Not Assessed	N/A	N/A	N/A	8	Final Report Issued
Procurement						
Procurement Baseline Assessment	Substantial	1	5	0	10	Final Report Issued
Buildbase Contract	Limited	4	5	0	12	Final Report Issued

APPENDIX A - FINAL POSITION FOR THE 2012/13 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
Decent Homes Contract	Limited	0	18	0	20	Final Report Issued
Decent Homes Payments					12	Fieldwork in progress*
Counter Fraud						
Counter Fraud Baseline Assessment					10	In Quality Review*
Risk Management & Governance						
Risk Management Follow Up	Not Assessed	N/A	N/A	N/A	8	Final Report Issued
Corporate Governance Follow UP		N/A	N/A	N/A	8	Draft Report Issued
IT Audits						
IT Needs and Baseline Assessment	Not Assessed	N/A	N/A	N/A	10	Final Report Issued
IT Security	Substantial	0	3	0	10	Final Report Issued*
Contingency						
Contingency not used					5	
Follow-Up Audits						
IT Disaster Recovery Follow up	Not Assessed	N/A	N/A	N/A	3	Final Report Issued
High Priority Recommendations Quarterly Follow Up	Not Assessed	N/A	N/A	N/A	3	Complete

APPENDIX A - FINAL POSITION FOR THE 2012/13 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
Strategic Support						
PKF Handover	N/A	N/A	N/A	N/A	2	Complete
Audit Committee	N/A	N/A	N/A	N/A	8	Complete
External Audit Liaison	N/A	N/A	N/A	N/A	4	Complete
Annual Report and Head of Internal Audit Opinion 2011/12	N/A	N/A	N/A	N/A	5	Complete
Monitoring	N/A	N/A	N/A	N/A	12	Complete
Ad hoc	N/A	N/A	N/A	N/A	3	Complete
SIAS Development	N/A	N/A	N/A	N/A	5	Complete
2013/14 Audit Plan	N/A	N/A	N/A	N/A	5	Complete
TOTALS		6	57	24	400	

Notes

* For the purposes of performance indicator 2 at section 4.1, these reports were not at draft report stage at 31 March 2013

APPENDIX B - DEFINITIONS OF ASSURANCE LEVELS AND PRIORITY OF RECOMMENDATIONS

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.

APPENDIX C – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
2a	<p>Code of Ethics</p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by performing services in accordance with the Public Sector Internal Audit Standards.</p>	<p>The SIAS Audit Manual sets out the working protocols for performing audit services. The Audit Manual reflects the CIPFA Code of Practice in force until 31 March 2013.</p> <p>This does not represent a significant issue given that the CIPFA Code of Practice has a large degree of similarity with PSIAS.</p>	<p>Update the Audit Manual to reference the Public Sector Internal Audit Standards.</p> <p>Head of Assurance June 2013</p>

APPENDIX C – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
2b	<p>Code of Ethics</p> <p>Do internal auditors have regard to the <i>Seven Principles of Public Life</i>?</p>	<p>Internal auditors have regard to the Seven Principles of Public Life although this is not explicitly documented in the SIAS ethical framework.</p> <p>This does not represent a significant issue given that the auditors are already required to observe ethical protocols and make an annual declaration of interest.</p>	<p>Update the SIAS ethical framework document to reference the Seven Principles of Public Life.</p> <p>Head of Assurance June 2013</p>

APPENDIX C – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
3.1a	<p>Purpose, Authority and Responsibility</p> <p>Does the board (defined as the Audit Committee) approve decisions relating to the appointment and removal of the Chief Audit Executive (CAE) (Head of Assurance)</p>	<p>The Deputy Chief Executive of Hertfordshire County Council, in consultation with the Board of the Shared Internal Audit Services approves decisions relating to the appointment and removal of the CAE.</p> <p>This is as provided for in the governance of the Shared Internal Audit Service.</p> <p>This does not represent a significant issue given that there is provision for consultation with partner members in relation to such decisions.</p>	<p>No action proposed.</p>

APPENDIX C – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
3.1b	<p>Purpose, Authority and Responsibility</p> <p>Does the board (defined as the Audit Committee) seek reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations.</p>	<p>This is a new requirement. Provision for this is made through proposals for management to confirm to the Audit Committee the absence of inappropriate scope or resource limitations, at the point of receiving the Annual Report of the Head of Assurance.</p>	<p>Include recommendation in the Annual Report of the Head of Assurance</p> <p>Head of Assurance June 2013</p>

APPENDIX C – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

<p>3.1c</p>	<p>Purpose, Authority and Responsibility Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?</p>	<p>The performance appraisal is carried out by the Deputy Chief Executive of Hertfordshire County Council (HCC)</p> <p>This is not considered a significant issue given that the Deputy Chief Executive is a senior manager within HCC and represents HCC on the SIAS Board thus providing a direct link to partner authorities.</p>	<p>Chief Executive of Hertfordshire County Council to counter-sign the performance appraisal.</p> <p>Chief Executive, HCC March 2014</p>
<p>3.1d</p>	<p>Purpose, Authority and Responsibility Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?</p>	<p>No such feedback is sought at present.</p> <p>This is not considered a significant issue given that there are informal opportunities for Audit Committee Chairs to feedback on SIAS either directly or via Chief Financial Officers.</p>	<p>Head of Assurance to discuss arrangements with the SIAS Board.</p> <p>Head of Assurance June 2013</p>

APPENDIX C – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
3.3	<p>Proficiency and Due Professional Care</p> <p>Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?</p>	<p>There is sufficient knowledge of the appropriate computer assisted audit techniques. Therefore this is not considered to be a significant issue.</p> <p>However there are opportunities to increase the use of such techniques in the performance of audit activity.</p>	<p>Strategy for computer assisted audit techniques to be developed.</p> <p>Head of Assurance</p> <p>June 2014</p>
3.4a	<p>Quality Assurance and Improvement Programme</p> <p>Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?</p>	<p>SIAS has a quality and performance framework which contains many elements of the QAIP, and therefore this is not a significant issue.</p> <p>However the SIAS quality and performance framework needs to be reviewed to ensure it meets the full requirements of the QAIP</p>	<p>Review the quality and performance framework to ensure it fully meets the requirements of the QAIP</p> <p>Head of Assurance</p> <p>July 2013</p>

APPENDIX C – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
3.4b	<p>Quality Assurance and Improvement Programme (QAIP) Does the CAE maintain the QAIP?</p>	<p>The SIAS quality and performance framework is maintained regularly therefore this is not a significant issue; the review will ensure that ongoing maintenance arrangements are clarified.</p>	<p>Clarify ongoing maintenance arrangements of SIAS QAIP July 2013</p>
3.4c	<p>Quality Assurance and Improvement Programme Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?</p>	<p>The CAE has considered and evidenced this in this document</p>	<p>No further action required.</p>

APPENDIX C – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
4a	<p>Performance Standards</p> <p>Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?</p>	<p>There is no documented note of the approach to other sources of assurance, or mapping exercise, and any work that may be required to place reliance upon these sources</p>	<p>Document the approach to other sources of assurance and the work required to place reliance upon these sources</p> <p>Head of Assurance</p> <p>March 2014</p>
4b	<p>Performance Standards</p> <p>Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?</p>	<p>This is not significant because albeit not documented in the audit plan covering report, discussions about other assurance sources are regularly held as part of the overall audit planning process.</p>	
4.4	<p>Engagement Planning</p> <p>Are the retention requirements for engagement records consistent with the organisation’s own guidelines as well as any relevant regulatory or other requirements?</p>	<p>An exercise to review the consistency of retention periods is underway. However, because SIAS already has a document retention guide this is not considered to be significant.</p>	<p>Complete exercise to review consistency between retention periods.</p> <p>Head of Assurance</p> <p>June 2014</p>

APPENDIX C – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
4.5	<p>Communicating results</p> <p>Does the Annual Report incorporate the results of the QAIP and any associated improvement actions</p>	<p>The Annual Report for 2012/13 reports on the first assessment against the PSIAS and notes that the SIAS quality and improvement framework will be reviewed to incorporate all the requirements of the QAIP. A report on this will be included within the 2013/14 Annual Report.</p>	<p>Include results of QAIP and progress on improvement actions in 2013/14 Annual Report</p>