

2013/14 INTERNAL AUDIT ANNUAL REPORT

Relevant Portfolio Holder	Councillor Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Sam Morgan, Financial Services Manager
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

1. SUMMARY OF PROPOSALS

1.1 To present:

- The 2013/14 Internal Audit Annual Report for the period 1st April 2013 to 31st March 2014 along with the Audit Opinion and Commentary.

2. RECOMMENDATION

- 2.1 **The Board is asked to RESOLVE that the 2013/14 Internal Audit Annual Report is noted.**

3. KEY ISSUES

Financial Implications

- 3.1 None as a direct result of this report.

Legal Implications

- 3.2 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2011 to “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.

Service / Operational Implications

- 3.3 As reported in **Appendix 1** during 2013/2014 there were 285 chargeable audit days delivered. This equates to a delivery of 95% against a target for the year of 90%.

- 3.4 **Appendix 2** provides a breakdown of the audits completed and the overall assurance.
- 3.5 **Appendix 3** provides the audit opinion and commentary.
- 3.6 The Worcestershire Internal Audit Shared Service (WIASS) has achieved and delivered the full 2013/2014 internal audit plan.
- 3.7 The Internal Audit Plan for 2013/2014 was risk based (assessing audit and assurance factors, materiality risk, impact of failure, system risk, resource risk, fraud risk, and external risk) using a predefined scoring system. It included:
- a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion' and other corporate systems for example governance and
 - a number of operational systems, for example environmental enforcement, depot and stores and Land Charges were looked at to maintain and improve its control systems and risk management processes or reinforce its oversight of such systems.
- 3.8 In accordance with best practice the plan is subject to review each year to ensure that identified changes, for example, external influences, risk assessment and process re-engineering are taken into consideration within the annual plan.
- 3.9 The purpose of the 2013/14 Annual Plan was to aid the effectiveness of the Internal Audit function and ensure that:
- Internal Audit assisted the Authority in meeting its objectives by reviewing the high risk areas, systems and processes,
 - Audit plan delivery was monitored, appropriate action taken and performance reports issued on a regular basis,
 - The key financial systems are reviewed annually, enabling the Authority's external auditors to inform their opinion using the work completed by Internal Audit,
 - An opinion can be formed on the adequacy of the Authority's system of internal control, which feeds into the Annual Governance Statement which is presented with the statement of accounts.
- 3.10 2013/14 was a demanding year for the Internal Audit team with the loss of two Auditors early in the year, managing a return to work after long term sickness as well as training and mentoring two new auditors who joined the team. There was a need to vacancy manage posts for a significant proportion of the year in order to offset the interim resource that was used to ensure WIASS could deliver the risk based internal audit plan. Internal Audit has carefully managed its resource and worked

with partners to deliver the full audit programme for Bromsgrove District Council for 2013/14.

Work of interest to the External Auditor

- 3.11 To try to reduce duplication of effort we understand the importance of working with the External Auditors. The audit plan is shared with the external auditors for information. The results of the work that we perform on five systems audits will be of direct interest to External Audit. Audit reports are passed to the external auditor on request for their information.

External Work

- 3.12 The work to deliver the Hereford and Worcester Fire and Rescue Service internal audit contract was predominantly completed during 2013/14 with only management responses awaited in order to finalise two audits. A smaller contract for Threadneedle House in Redditch was also delivered during 2013/14.

Quality Measures

- 3.13 Managers are asked to provide feedback on systems audits by completing a questionnaire. At the conclusion of each audit a feedback questionnaire is sent to the Responsible Manager and an analysis of those returned during the year shows very high satisfaction with the audit product – see Appendix 2.
- 3.14 To further assist the Board with their assurance of the overall delivery the Worcestershire Internal Audit Shared Service conform to the Public Sector Internal Audit Standards.
- 3.15 Worcestershire Internal Audit Shared Service Internal Audit activity is organisationally independent. Internal Audit reports to the s151 Officer but has a direct and unrestricted access to senior management and the Audit Board.
- 3.16 Further quality control measures embedded in the service include individual audit reviews and regular Client Officer feedback. All staff work to a given methodology and have access to the internal audit manual and Charter which has been updated to reflect the requirements of the standards.

- 3.17 The Client Officer group meet on a regular basis and consider the performance of the Shared Service including progress against the Service Plan, and, promote continuous improvement.
- 3.18 WIASS has delivered the audit programme in conformance with the UK Public Sector Internal Audit Standards as published by the Institute of Internal Auditors.
- 3.19 Risk Management features as part of the audit programme for the year. Reports are brought before the Audit Board for consideration.
- 3.20 Work is continuing in respect of the NFI exercise. Appropriate action is being taken and work is progressing to identify any potential fraudulent activity for example overpayment for housing benefits, income support, etc. The amount of fraudulent activity identified by the 2012/13 exercise as at the 29th April 2014 for Bromsgrove District Council was £13,339.21.
- 3.21 We recognise there are other review functions providing other sources of assurance (both internally and externally) over aspects of the Council's operations. Where possible we will seek to place reliance on such work thus reducing the internal audit coverage as required.

3.22 Anti-Fraud and Corruption Survey.

The anti fraud and corruption survey was completed by Internal Audit and submitted on the 16th May 2014 in respect of financial year 2013/14. The survey examined several key anti fraud measures that exist within the Council. Further work was also completed as part of the audit programme in this area. There were some weaknesses found during the audit to which action will be taken to strengthen them.

Customer / Equalities and Diversity Implications

- 3.23 There are no implications arising out of this report.

4. RISK MANAGEMENT

The main risks associated with the details included in this report are.

- Non-compliance with statutory requirements.

5. APPENDICES

Appendix 1 ~ Delivery against plan 2013/14

Appendix 2 ~ Audits completed with assurance for 2013/14

Appendix 3 ~ Audit Opinion and Commentary

6. BACKGROUND PAPERS

None.

7. Key

N/a

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BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date: 19th June 2014

APPENDIX 1

Delivery against Internal Audit Plan for 2013/14
1st April 2013 to 31st March 2014

Audit Area	DAYS USED TO 31/03/14	2013/14 PLANNED DAYS
Core Financial Systems	88	87
Corporate Audits	66	68
Other Systems Audits	*92	109
TOTAL	246	264
Audit Management Meetings	15	15
Corporate Meetings / Reading	5	5
Annual Plans and Reports	8	8
Audit Board support	8	8
Other chargeable	**3	0
TOTAL	39	36
TOTAL	285	300

Note:

*Full number of budgeted days not used due to some a small 'call off' budgets, e.g. consultancy, investigations, not being fully utilised.

** 'Other chargeable' days equate to times where there has been significant disruption to the ICT provision resulting in lost productivity.

APPENDIX 1

Key Performance Indicators (KPIs) for 01st April 2013 to 31st March 2014.

The success or otherwise of the Internal Audit Shared Service can be measured against some of the following key performance indicators for 2013/14 i.e. KPI 3 and 4. Other key performance indicators link to overall governance requirements of Bromsgrove District Council.

	KPI	Trend requirement	2012/13 Year End Position	2013/14 Position (as at March 2014)	Frequency of Reporting
1	No. of 'high' priority recommendations	Downward	8	*8	Quarterly
2	No. of moderate or below assurances	Downward	3	8	Quarterly
3	No. of customers who assess the service as 'excellent'	Upward	2	4 (5 issued: 4x Excellent & 1x Good)	Quarterly
4	No. of audits achieved during the year	Per target	Target = 21 Delivered = 21	Target = 15 (minimum) Delivered = 14 (with a further 7 in draft)	Quarterly

*This figure only includes finalised audit report recommendations therefore is subject to change (i.e. increase) depending on the draft report outcomes.

WIASS operates within and conforms to the Public Sector Internal Audit Standards 2013.

BROMSGROVE DISTRICT COUNCIL**AUDIT BOARD**Date 19th June 2014**Appendix 2****Audit Opinion Analysis ~
Audits completed during financial year 2013/2014:**

Audit Report / Title	Final Report issued	Assurance
Land Charges	29 th July 2013	Full
BURT Dial a Ride	10 th October 2013	Significant
Development Control	29 th October 2013	Significant
Cash, General ledger, Budgetary Control and Bank Reconciliation	19 th February 2014	Significant
Debtors	27 th February 2014	Significant
Treasury Management	16 th April 2014	Significant
Asset Management	16 th April 2014	Significant
Benefits	7 th March 2014	Significant
Council Tax	24 th March 2014	Moderate
Creditors	1 st April 2014	Moderate
Shared Services (Regulatory)	30 th May 2014	Moderate
Depot and Stores	14 th May 2014 (D)	Moderate (D)
Regulatory Services (Hackney Carriage Licensing)	30 th May 2014 (D)	Moderate (D)
Risk Management	30 th April 2014	Limited
NDR	25 th March 2014	Limited
Corporate Governance (Fraud)	9 th May 2014 (D)	Limited (D)
Protecting the Public Purse (Transformation)	9 th May 2014 (D)	N/a ~ Critical Review
ICT incl. Project Auditing	9 th May 2014 (D)	No (D)
Environmental Crime Enforcement	16 th July 2013	N/a ~ Critical Review
Strategic Housing	30 th May 2014 (D)	N/a ~ Critical Review
S106 Agreements	Clearance Mtg (D)	To be confirmed

Note: (D) denotes audit is currently in draft but unlikely the assurance level will change.

AUDIT BOARD

Date 19th June 2014

Summary of 2013/14 Audits Assurance Levels.

2013/14	Number of BDC Audits	Assurance	Overall % (rounded)
From 21 audits	1	Full	5
	7	Significant	33
	5	Moderate	24
	3	Limited	14
	1	No	5
	1	To be confirmed	5
	3	N/a	14

Client Feedback Analysis ~ IA Reporting

Feedback is sought after the issue of the final audit report either verbally or via a feedback questionnaire. The feedback is used to assess the effectiveness of internal audit and to help improve and enhance the internal audit function. Feedback during the 2013/14 financial year has been received indicating that:

- auditee was more than happy with the process and format of the audits. This continues to be further developed.
- Recommendations made would help to support and give assurance on recently implemented changes.
- There is a high satisfaction rate with the audit product from the data received.

4 questionnaires were returned as 'excellent' and 1 as 'good'.

Overall Conclusions:

- 76% of the audits undertaken for 2013/14 which have received an assurance allocated returned an assurance of 'moderate' or above. This figure is inclusive of the critical friend audits i.e. 'N/A'.
- Clients are satisfied with the audit process and service from the data received.

Worcestershire Internal Audit Shared Services Manager's Opinion on the Effectiveness of the System of Internal Control at Bromsgrove District Council (the Council) for the Year Ended 31st March 2014

1. Audit Opinion

- 1.1 The internal audit of Bromsgrove District Council's systems and operations during 2013/14 was conducted in accordance with the Internal Audit Annual plan which was approved by the Audit Board on 14th March 2013.
- 1.2 The Internal Audit function was set up as a shared service in 2010/11 and hosted by Worcester City, for 5 district councils. The shared service operates in accordance with the Institute of Internal Auditors Public Sector Internal Audit Standards 2013.
- 1.3 The Internal Audit Plan for 2013/2014 was risk based (assessing audit and assurance factors, materiality risk, impact of failure, system risk, resource risk fraud risk, and external risk) using a predefined scoring system. It included:
 - a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion' other corporate systems for example governance and
 - a number of operational systems, for example environmental enforcement, depot and stores and Land Charges were looked at to maintain and improve its control systems and risk management processes or reinforce its oversight of such systems.
- 1.4 The 2013/14 internal audit plan was delivered in full providing sufficient coverage for the s151 and Internal Audit Service Manager to form an overall opinion.
- 1.5 In relation to the twenty one reviews that have been undertaken, fourteen audits have been finalised and seven are nearing completion at clearance meeting or draft report stage. Risk management was re-launched during 2012/13 with a Corporate Risk Register being formulated and training being provided. However, further development and embedding is required to move towards a trustworthy system which

can be relied upon. An audit in this area returned an assurance level of 'limited assurance'. Further work is required to embed this throughout the organisation with the outcomes being monitored by the Risk Management Group. Other areas which also returned an assurance level of 'limited' included Corporate Governance ~ Fraud and, NDR. A key area which returned a 'no' assurance level was ICT. All areas where assurance was 'limited' or below will be addressed by management and have a defined action plan in place in order to address the weaknesses and issues identified. Where audits are to be finalised a comprehensive management action plan will be required and agreed by the s151 Officer.

- 1.6 As part of the process of assessing the Council's control environment, senior officers within the Council are required to complete an annual "Internal Control Assurance Statement" to confirm that the controls in the areas for which they are responsible are operating effectively. Officers were required to acknowledge their responsibilities for establishing and maintaining adequate and effective systems of internal control in the services for which they are responsible and confirming that those controls were operating effectively except where reported otherwise. For the majority of areas no areas of significant risk have been identified. Any concerns raised by managers will be assessed and addressed by the Authorities Corporate Management Team.
- 1.7 The majority of the completed audits have been allocated an audit assurance of either 'moderate' or above meaning that there is generally a sound system of internal control in place, no significant control issues have been encountered and no material losses have been identified during a time of continuing significant transformation and change.
- 1.8 WIASS can conclude that no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance based on the audits performed in accordance with the approved plan and the scoping therein. Based on the audits performed in accordance with the approved plan, the Worcestershire Internal Audit Shared Service Manager has concluded that the internal control arrangements during 2013/14 managed the principal risks identified in the audit plan and can be reasonably relied upon to ensure that the Council's corporate objectives have been met.

Andy Bromage
Worcestershire Internal Audit Shared Services Manager
June 2014