

BROMSGROVE DISTRICT COUNCIL

AUDIT, STANDARDS & GOVERNANCE COMMITTEE

16TH July 2015

2014/15 INTERNAL AUDIT ANNUAL REPORT

Relevant Portfolio Holder	Councillor Geoff Denaro
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 2014/15 Internal Audit Annual Report for the period 1st April 2014 to 31st March 2015 along with the Audit Opinion and Commentary.

2. RECOMMENDATION

2.1 **The Committee is asked to RESOLVE that the 2014/15 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 2014/2015 there were 291 chargeable audit days delivered in regard to the 300 budgeted. This equates to a delivery of 97% against a minimum target for the year of 90%.

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- 3.4 **Appendix 2** provides a breakdown of the audits completed including the overall assurance as well as confirmation of follow up audits undertaken during the year
- 3.5 **Appendix 3** provides the 2014-15 audit opinion and commentary.
- 3.6 The Worcestershire Internal Audit Shared Service (WIASS) has achieved and delivered the revised 2014/2015 internal audit plan.
- 3.7 The Internal Audit Plan for 2014/2015 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 and reported to the Audit Board on the 20th March 2014. 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 data security and publications, communications and media and elections 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 2014/15 Annual Plan was to aid the effectiveness of the Internal Audit function and ensure that:
- Internal Audit assisted the Authority in meeting its corporate purposes 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 2014/15 was a demanding year for the Internal Audit team with an Auditor leaving mid way through the year, but, overall there has been more stability in the team. WIASS has carefully managed its resource and worked with partners to deliver the full revised audit programme for Bromsgrove District Council for 2014/15.

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 result of the work that WIASS has performed on eight systems audits was 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 (H&WFRS) internal audit contract was predominantly completed during 2014/15 with only management responses awaited in order to finalise two audits. H&WFRS are in the process of joining the shared service as a full partner and negotiations are continuing. A smaller contract for Threadneedle House in Redditch was also delivered during 2014/15.

Follow Up Audits

- 3.13 A summary of audit follow ups for the year is provided as part of Appendix 2. This area of work is undertaken to ensure that potential risks to the authority are mitigated. The outcome of this work is reported on an exceptions basis. There have been no exceptions reported to the Audit Board during 2014/15.

Quality Measures

- 3.14 Managers are asked to provide feedback in regard to systems audits that have taken place 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.
- 3.15 To further assist the Committee with their assurance of the overall delivery Worcestershire Internal Audit Shared Service conform to the Public Sector Internal Audit Standards.
- 3.16 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, Standards & Governance Committee.

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- 3.17 Further quality control measures embedded in the service include individual audit reviews and regular Client Officer feedback. 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.
- 3.18 The Client Officer Group which is the management board for the Service and is made up of partner s151 Officers meet on a regular basis and consider the performance of the Shared Service including progress against the Service Plan as well as promoting the continuous improvement of the Service.
- 3.19 WIASS has delivered the audit programme in conformance with the UK Public Sector Internal Audit Standards as published by the Institute of Internal Auditors.
- 3.20 Risk Management features as part of the audit programme for the year. Reports are brought before the Committee for consideration along with verbal updates from the Financial Services Manager.
- 3.21 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. This is a biennial exercise. The last significant data extract was during 2014/15 and is currently being worked on. Identified savings from the previous exercise to date for Bromsgrove District Council was £105,332.55 with a small number of housing benefit cases provided by Bromsgrove matching to, for example, other organisations payrolls, undeclared student loan. A significant part of this balance was made up with very few cases.
- 3.22 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.

Anti-Fraud and Corruption Survey.

- 3.23 The anti fraud and corruption survey was completed by Internal Audit and submitted at the end of April 2015 in respect of financial year 2014/15. The survey examined several key anti fraud measures that exist within the Council.

Customer / Equalities and Diversity Implications

3.24 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 2014/15

Appendix 2 ~ Audits completed with assurance for 2014/15 and audit follow up work

Appendix 3 ~ Audit Opinion and Commentary

6. BACKGROUND PAPERS

None.

7. Key

N/a

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APPENDIX 1

Delivery against Internal Audit Plan for 2014/15

1st April 2014 to 31st March 2015

Audit Area	2014/15 PLANNED DAYS	DAYS USED TO 31/03/15
Core Financial Systems (see note 1)	87	86
Corporate Audits(see note 2)	58	49
Other Systems Audits	119	119
TOTAL	264	254
Audit Management Meetings	15	16
Corporate Meetings / Reading	5	5
Annual Plans and Reports	8	8
Audit Board support	8	8
Other chargeable(see note 3)	0	0
TOTAL	36	37
TOTAL (see note 4)	300	291

Note:

Days are rounded to the nearest whole.

Note 1: Core Financial Systems were audited predominantly in quarter 3 in order to maximise the assurance provided for Annual Governance Statement and Statement of Accounts. Main Ledger was delayed as further work was undertaken to provide assurance on the integrity of the base line figures after transferral to new system.

Note 2: Full number of budgeted days not used due to a plan adjustment agreed with the s151 Officer in regard to shared services. A dedicated corporate budget was not required as it was agreed the audit coverage had been included in audit briefs for shared service areas.

Note 3: 'Other chargeable' days equate to times where there has been significant disruption to the ICT provision resulting in lost productivity.

Note 4: A net 9 days unused culminated in no impact on the overall audit coverage.

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Key Performance Indicators (KPIs) for 01st April 2014 to 31st March 2015.

The success or otherwise of the Internal Audit Shared Service can be measured against some of the following key performance indicators for 2014/15 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 Year End Position	2014/15 Year End Position	Frequency of Reporting
1	No. of 'high' priority recommendations	Downward	8	8	*5	Quarterly
2	No. of moderate or below assurances	Downward	3	8	7	Quarterly
3	No. of customers who assess the service as 'excellent'	Upward	2	4 (5 issued: 4x Excellent & 1x Good)	4 (12 issued; 5 returns 4x Excellent & 1x Good)	Quarterly
4	No. of audits achieved during the year	Per target	Target = 21 Delivered 21	Target = 15 (minimum) Delivered 21	Target = 17 (minimum) Delivered 20 (incl. 7x Draft)	Quarterly

*The high priority recommendations were related to the following service areas:

- Corporate Senior Management Team (Equality and Diversity) x1
- Environmental Services (Waste Management) x1
- Customer Access and Financial Support (Cash Receipting) x1
- Worcestershire Regulatory Services x2

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Appendix 2

**Audit Opinion Summary Analysis ~
Audits completed during financial year 2014/2015:**

Audit Report / Title	Final Report issued	Assurance
Elections	27th October 2014	Significant
Communication and Media	16th October 2014	Significant
Disabled Facilities Grants and HRAs	12th November 2014	Significant
Asset Management	20th November 2014	Significant
Treasury Management	28th November 2014	Significant
Debtors	29th January 2015	Significant
Benefits	11th February 2015	Significant
Creditors	15th May 2015	Significant
Equality and Diversity	28th August 2014	Moderate
Data Security and Publication	9th September 2014	Moderate
Waste Management	9th January 2015	Moderate
Cash Receipting	29th January 2015	Moderate
Council Tax	6th February 2015	Moderate
NNDR	6th February 2015	Moderate
Corporate Governance – Appointments to Outside Bodies	20th April 2015 (D)	Significant (D)
Regulatory Services	13th May 2015 (D)	Limited (D)
Risk Management	29th January 2015 (D)	N/A ~ Critical Friend (D)
Budget Setting	13th February 2015 (D)	N/A ~ Critical Friend (D)
ICT	27th March 2015 (D)	N/A ~ Critical Friend (D)
Main Ledger	To be confirmed	To be confirmed
Follow Up Audits		

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Markets 2012-13	December 2014	
Street Scene 2012-13	February 2015	
Building Control 2013-14	July 2014	
Dial a Ride BURT 2013-14	July 2014	
Risk Management 2013-14	February 2015	
Worcestershire Regulatory Services 2012-13 & 2013-14	March 2015	
Depot and Stores 2013-14	February 2015	
ICT 2013-14	February 2015	
Equality and Diversity 2014-15	February 2015	
All core financial audits		

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

Summary of 2014/15 Audits Assurance Levels.

Note: The 'limited' assurance audit was a Worcestershire Regulatory shared service audit in which Bromsgrove is a

2014/15	Number of Audits	Assurance	Overall % (rounded)
From 20 audits (incl. those at draft stage)	0	Full	0%
	9	Significant	45%
	6	Moderate	30%
	1	Limited	5%
	0	No	0%
	1	To be confirmed	5%
	3	N/a Critical Friend	15%

partner.

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Client Feedback Analysis ~ IA Reporting

Feedback is sought after the issue of the final audit report via a feedback questionnaire. Sometimes this is reported back verbally rather than in the written form. The feedback is used to assess the effectiveness of internal audit and to help improve and enhance the internal audit function. Feedback during the 2014/15 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.

Comments received included:

- "The process was painless, the assessment was fair and the suggested measures were practical and helpful. Particularly helpful that this is now covering the process for both authorities removing duplication".
- "Pre preparation in regards to familiarisation with the grant process and therefore what data and files would be both meaningful and accessible which saved time and disruption".
- "The face to face communications are good and Officers explain things well".
- "Officers were prepared to listen".

Of 12 questionnaires issued 5 were returned; 4 as 'excellent' and 1 as 'good'.

Overall Conclusions:

- The 2014/15 Internal Audit Plan as agreed by the Audit Board on the 20th March 2014 along with any subsequent revisions has been delivered in full.
- 90% of the audits undertaken for 2014/15 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.

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- Independent assurance has been brought before the Audit Board for consideration in respect of the finalised audits throughout 2014/15 and there have been no exceptions to report in regard to follow up audit work.
- To assist the Committee to draw further assurance from the work that Internal Audit undertakes clear reference is contained in the final audit report to identify whether a direct link exists to corporate priorities and the risk register entry in connection with the audited service provision. This information has been, and will continue to be, reported to the Committee as part of the summary reporting.
- On-going dialogue will be maintained with the s151 Officer and the Client Officer Group. The Client Officer Group for the Internal Audit Shared Service comprises all the partners' s151 Officers whom actively encourage the on-going development of the service.

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 2015

1. Audit Opinion

- 1.1 The internal audit of Bromsgrove District Council's systems and operations during 2014/15 was conducted in accordance with the Internal Audit Annual plan which was presented to the Audit Board on 20th March 2014 and a small subsequent revision.
- 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 CIPFA guidance and the Institute of Internal Auditors Public Sector Internal Audit Standards 2013.
- 1.3 The Internal Audit Plan for 2014/2015 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 2014/15 revised 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 reviews that have been undertaken, thirteen 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 work is required to embed this throughout the organisation with the outcomes being monitored by the Risk Management Group. An area which

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returned an assurance level of 'limited' was Worcestershire Regulatory Services. 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 all services 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 One key area of risk during the year was the transferral of the main ledger to a new system. This presented its own challenges but has been closely monitored by both internal and external audit. The work that internal audit completed was able to give assurance on the integrity of the key underlying figures and controls associated with the new ledger. The historical breakdown of cost centre figures will remain on the previous system which is acceptable for now but there is an increasing risk associated with this as time passes because the system will be no longer supported and with the natural churn of staff and reduced use the expertise to interpret and extract data effectively will diminish.
- 1.8 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. Where a 'limited' assurance has been reported this has been in connection with a shared service in which Bromsgrove is a partner.
- 1.9 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 and revised plan, the Worcestershire Internal Audit Shared Service Manager has concluded that the internal

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control arrangements during 2014/15 managed the principal risks identified in the audit plan and can be reasonably relied upon to ensure that the Council's corporate purposes have been met.

Andy Bromage

Worcestershire Internal Audit Shared Services Manager

June 2015