

**BROMSGROVE DISTRICT COUNCIL**

**AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

Date: 16<sup>th</sup> June 2016

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**2015/16 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 2015/16 Internal Audit Annual Report for the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016 along with the Audit Opinion and Commentary.

**2. RECOMMENDATION**

2.1 **The Committee is asked to RESOLVE that the 2015/16 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 5 of the Accounts and Audit Regulations 2015 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 2015/2016 there were 245 chargeable audit days delivered in regard to the 250 budgeted. This equates to a delivery of 98% of the plan.

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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 2015-16 audit opinion and commentary.
- 3.6 The Worcestershire Internal Audit Shared Service (WIASS) has achieved and delivered the 2015/2016 internal audit plan with minor revisions.
- 3.7 The Internal Audit Plan for 2015/2016 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 Committee on the 19<sup>th</sup> March 2015. 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 2015/16 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 2015/16 was a very demanding year for the Internal Audit team with the resignation of an Auditor in April followed by another in November, a Lead Auditor in September, and, two substantial investigations at Partner sites. WIASS has carefully managed its resource and worked

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with partners to deliver a full audit programme for Bromsgrove District Council for 2015/16.

#### **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 2015/16 with only management responses awaited in order to finalise three audits. H&WFRS have joined the shared service as a full partner from 1<sup>st</sup> April 2016. A smaller contract for Threadneedle House in Redditch was also delivered during 2015/16 but this has now ceased as the property has been sold.

#### **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 Committee during 2015/16.

#### **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 2013.
- 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 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 actively promoting the continuous improvement of the Service.
- 3.19 Risk Management and Performance Management Framework featured as part of the original audit programme for the year but it was decided to defer Risk Management until Q1 of 2016/17 and postpone the Performance Management Framework audit.
- 3.20 Heads of Service provide regular Risk Management updates before the Audit Committee for consideration along with verbal updates from the Financial Services Manager to provide assurance.
- 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 circa £19,400 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 will be completed by Internal Audit and submitted to The European Institute for Combatting Corruption and Fraud (TEICCAF) at the end of August 2016 in respect of financial year 2015/16.

#### **Customer / Equalities and Diversity Implications**

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

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**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 2015/16

Appendix 2 ~ Audits completed with assurance for 2015/16 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 2015/16**  
**1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016**

<b>Audit Area</b>	<b>2015/16 DAYS USED</b>	<b>2015/16 PLANNED DAYS</b>
Core Financial Systems (see note 1)	71	71
Corporate Audits (see note 3)	0	5
Other Systems Audits	138	138
<b>TOTAL</b>	<b>209</b>	<b>214</b>
Audit Management Meetings	15	15
Corporate Meetings / Reading	5	5
Annual Plans and Reports	8	8
Audit Committee support	8	8
Other chargeable (see note 2)	0	0
<b>TOTAL</b>	<b>36</b>	<b>36</b>
<b>TOTAL</b>	<b>245</b>	<b>250</b>

**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.

Note 2: 'Other chargeable' days equate to times where there has been significant disruption to the ICT provision resulting in lost productivity.

Note 3: A net 5 days unused culminated in no impact on the overall audit coverage as this budget was ear marked for risk management which was deferred to Q1 of 2016/17 plan.

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#### **Key Performance Indicators (KPIs) for 01<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016.**

The success or otherwise of the Internal Audit Shared Service can be measured against some of the following key performance indicators for 2015/16 i.e. KPI 3 and 4. Other key performance indicators link to overall governance requirements of Bromsgrove District Council.

	<b>KPI</b>	<b>Trend requirement</b>	<b>2013/14 Year End Position</b>	<b>2014/15 Year End Position</b>	<b>2015/16 Year End Position</b>	<b>Frequency of Reporting</b>
1	No. of 'high' priority recommendations	Downward	8	5	*4	Quarterly
2	No. of moderate or below assurances	Downward	8	7	7	Quarterly
3	No. of customers who assess the service as 'excellent'	Upward	4  (5 issued: 4x Excellent & 1x Good)	4  (12 issued; 5 returns 4x Excellent & 1x Good)	0  (11 Issued; 2 returns 2x'good')	Quarterly
4	No. of audits achieved during the year	Per target	Target = 15 (minimum)  Delivered 21	Target = 17 (minimum)  Delivered 20	Target = 15 (minimum)  Delivered 21 (including 9 in draft and 1 at clearance)	Quarterly
5	Percentage of plan delivered	100% of the agreed annual plan	N/A	N/A	98%	Quarterly
6	Service Productivity	Positive direction year on year (Annual target 74%)	N/A	N/A	81%	Quarterly

\*The high priority recommendations were related to the following service areas:  
Corporate Governance –Annual Governance Statement x1  
Treasury Management x1  
Consultancy and Agency x2

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**Appendix 2**

**Audit Opinion Summary Analysis ~  
Audits completed during financial year 2015/2016:**

<b>Audit Report / Title</b>	<b>Final Report issued</b>	<b>Assurance</b>
Members Allowances	2 <sup>nd</sup> October 2015	Significant
Safeguarding	4 <sup>th</sup> February 2016	Significant
Allotments	4 <sup>th</sup> February 2016	Significant
Creditors	4 <sup>th</sup> April 2016 (D)	Significant
Council Tax	10 <sup>th</sup> March 2016 (D)	Significant
NNDR	10 <sup>th</sup> March 2016 (D)	Significant
Housing Benefit and Council Tax Support	21 <sup>st</sup> March 2016	Significant
Main Ledger	31 <sup>st</sup> March 2016 (D)	Significant
Private Sector Housing - Step-up Private Tenancy Scheme	15 <sup>th</sup> September 2015	Moderate
Treasury Management	4 <sup>th</sup> December 2015	Moderate
Corporate Governance – Annual Governance Statement	22 <sup>nd</sup> February 2016	Moderate
ICT: System Administration	10 <sup>th</sup> March 2016 (D)	Moderate
Website Security	3 <sup>rd</sup> February 2016 (D)	Moderate
Debtors	29 <sup>th</sup> April 2016	Moderate
Consultancy and Agency	5 <sup>th</sup> February 2016 (D)	Limited
Account Reconciliations	31 <sup>st</sup> March 2016	Critical Review
CCTV	31 <sup>st</sup> March 2016	Critical Review
S106 Planning Obligations	8 <sup>th</sup> April 2016	Critical Review
Regulatory Services	12 <sup>th</sup> April 2016 (D)	Critical Review
Environmental	11 <sup>th</sup> May 2016 (D)	Critical Review
Payroll	Working towards clearance	TBC
Note: (D) denotes audit is currently in draft but unlikely the assurance level will change.		



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<b>Follow Up Audits:</b>		
<b>Audit Area</b>	<b>Date of Follow Up</b>	<b>Position</b>
ICT 2013/14	October 2015, & February 2016	2 remained in progress Oct 15. All implemented
Depot and Stores 2013/14	June 2015	All Implemented
Equality and Diversity 2014/15	November 2015	2 remain in progress ~ First half of 2016 workshops to be undertaken to satisfy these.
Data Security and Publication 2014/15	November 2015	All implemented
Disabled Facilities Grant & HIA 2014/15	November 2015	All implemented
Asset Management 2014/15	October 2015	All implemented
Waste Management 2014/15	June 2015	All implemented
All core financial audits		

#### **Summary of 2015/16 Audits Assurance Levels from 21 audits.**

<b>Number of Audits</b>	<b>Assurance</b>	<b>Overall % (rounded)</b>
0	Full	0
8	Significant	38%
6	Moderate	28%
1	Limited	5%
0	No	0%
1	To be confirmed	5%
5	Critical Friend	24%

#### **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 2015/16 financial year has been received indicating that:

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- the auditee was 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.
- anecdotal evidence indicates a high satisfaction rate with the audit product from the data received.

Comments received included:

- “Not as scary as I thought it was going to be. People hear the word audit and go into a complete panic but I have to say it was a lot less scary than I had imagined”.
- “The review was carried out with a casual approach and not the perceived authoritarian approach that had been expected” (which was a good).
- “Clarifying the scope of the review and who would need to be seen. Taking a practical and pragmatic approach” (which was a good thing).
- “I appreciated the understanding shown to us and the payroll team and the willingness to check some processes associated with this review, where we wanted to take the opportunity to have an independent view of what we were doing”.
- “The recommendations in the review will support me trying to improve and change the service, especially in discussions with councillors”.

Of 11 questionnaires issued 2 were returned both which were marked as ‘good’.

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**Overall Conclusions:**

- The 2015/16 Internal Audit Plan as agreed by the Audit Committee on the 19<sup>th</sup> March 2015 along with any subsequent revisions has been delivered.
- 90% of the audits undertaken for 2015/16 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’ but does not include the ‘TBC’ review.
- Clients are satisfied with the audit process and service from the data received.
- Independent assurance has been brought before the Committee for consideration in respect of the finalised audits throughout 2015/16 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

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- information has been, and will continue to be, reported to the Committee as part of the summary reporting in 2016/17.
- 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.

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**APPENDIX 3**

**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 31<sup>st</sup> March 2016**

**1. Audit Opinion**

- 1.1 The internal audit of Bromsgrove District Council's systems and operations during 2015/16 was conducted in accordance with the Internal Audit Annual plan which was presented to the Audit Committee on 19<sup>th</sup> March 2015 and any subsequent revision.
- 1.2 The Internal Audit function was set up as a shared service in 2010/11 and hosted by Worcester City Council, 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 2015/16 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, s106's Planning Obligations and Private Sector Housing - Step-up Private Tenancy Scheme were looked at to maintain and improve its control systems and risk management processes or reinforce its oversight of such systems.
- 1.4 The 2015/16 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, eleven audits have been finalised and ten 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. Further work is required to embed this throughout the organisation with the outcomes being monitored by the Risk Management Group. An area which returned an assurance level of

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'limited' was Consultancy and Agency. All areas where assurance was 'limited' or below will be addressed by management and have a clearly 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 from the relevant Service Manager.

- 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 Corporate Management Team. Worcester Regulatory Services are introducing a new charging protocol for partners which will be determined by utilising a time recording module in their current system. This brings with it a certain risk but ongoing trials are seeing a vast improvement in captured data and appear to be moving forward in a positive way.
- 1.7 One key area of risk during the year was the late delivery of the finalised accounts for the previous year and the implications this had with a Section 11 being imposed by External Audit. However, the accounts were signed off and there has been a determination by the Finance team to ensure that this is not repeated. Regular reports have been taken before the Internal Audit Committee appraising it of progress made in regard to the 2015/16 final account process and progress that has been made in regard to the Section 11 notice.
- 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 the work undertaken in regard to the procurement of Consultants and Agency workers and an action plan will be implemented.

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- 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 control arrangements during 2015/16 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 2016