

BROMSGROVE DISTRICT COUNCIL

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 14th SEPTEMBER 2017

THE INTERNAL AUDIT MONITORING REPORT OF THE HEAD OF THE INTERNAL AUDIT SHARED SERVICE ~ WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.

Relevant Portfolio Holder	Councillor Brian Cooper
Portfolio Holder Consulted	Yes
Relevant Head of Service	Paul Field, 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 monitoring report of internal audit work and performance for 2017/18

2. RECOMMENDATIONS

2.1 **The Committee is asked to RESOLVE that the report be noted.**

3. KEY ISSUES

Financial Implications

3.1 There are no direct financial implications arising out 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 The involvement of Members in progress monitoring is considered to be an important facet of good corporate governance, contributing to the internal control assurance given in the Council’s Annual Governance Statement.

3.4 This section of the report provides commentary on Internal Audit’s performance for the period 01st April 2017 to 31st July 2017 against the performance indicators agreed for the service.

AUDIT REPORTS ISSUED/COMPLETED SINCE THE LAST PROGRESS REPORT (15th June 2017):

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3.5 2017/18 AUDIT SUMMARY UPDATES AS AT 31st JULY 2017:

Shared Service – North Worcestershire Building Control.

The review found the following areas of the system were working well:

- Operations outlined in agreement are being carried out;
- Consistent and clear approach of handling applications;
- Uniform system is up to date with notes and applications;
- Fees and charges are in line with what is approved and consistent against applications;
- Payments are taken before the processing of application;
- There are regular updates to the authorities on the position of Building Control;
- Payments were all accounted for against the ledger;
- There is a good working relationship between finance and building control.

The review found the following areas of the system where control could be strengthened:

- A signed Financial Charging Statement
- Check on payment codes

There was 1 'medium' and 1 'low' priority recommendation reported.

Type of Audit: Full System Audit

Assurance: Significant

Draft Report Issued: 10th August 2017

Summary of Assurance Levels:

<u>Audit</u>	<u>Assurance Level</u>
<u>2017/18</u>	
Shared Service – North Worcestershire Building Control	Significant

3.6 2017/18 AUDITS ONGOING AS AT 31st July 2017

The following audits were at draft report stage:

- Community Services – Disabled Facilities Grants
- Environmental – Waste Management
- Planning and Regeneration - Land Charges

Audits progressing through fieldwork stages included:

- Financial - Treasury Management
- ICT - Transformation
- ICT - Records Management

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The summary outcome of the above reviews will be reported to Committee in due course when they have been completed and management have confirmed an action plan.

3.7 AUDIT DAYS

Appendix 1 shows that progress continues to be made towards delivering the Internal Audit Plan and achieving the targets set for the year. As at 31st July 2017 a total of 61 days had been delivered against a target of 230 days for 2017/18.

Appendix 2 shows the performance indicators for the service. These indicators were agreed by the Audit, Standards and Governance Committee on the 30th March 2017 for 2017/18.

Appendix 3 shows a summary of the 'high' and 'medium' priority recommendations for those audits that have been completed and final reports issued.

Appendix 4 provides the Committee with an analysis of audit report 'Follow Ups' that have been undertaken to monitor audit recommendation implementation progress by management.

3.8 OTHER KEY AUDIT WORK

Much internal audit work is carried out "behind the scenes" but is not always the subject of a formal report. Productive audit time is accurately recorded against the service or function as appropriate. Examples include:

- Governance for example assisting with the Annual Government Statement
- Risk management
- Transformation review providing support as a critical review
- Dissemination of information regarding potential fraud cases likely to affect the Council
- Drawing managers' attention to specific audit or risk issues
- Audit advice and commentary
- Internal audit recommendations: follow up review to analyse progress
- Day to day audit support and advice for example control implications, etc.
- Networking with audit colleagues in other Councils on professional points of practice
- National Fraud Initiative over view.
- Investigations

There has been on going work undertaken in regard to the National Fraud Initiative. This year is the 2 yearly cycle of data extraction and uploading to enable matches to be reported. The initiative is over seen by the Cabinet Office. Worcestershire Internal Audit Shared Service (WIASS) has a coordinating role in regard to this investigative exercise in Bromsgrove District Council.

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WIASS is committed to providing an audit function which conforms to the Public Sector Internal Audit Standards. WIASS 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.

WIASS confirms it acts independently in its role and provision of internal audit.

3.9 Monitoring

To ensure the delivery of the 2017/18 plan there is close and continual monitoring of the plan delivery, forecasted requirements of resource – v – actual delivery, and where necessary, additional resource will be secured to assist with the overall Service demands. The Head of Internal Audit Shared Service remains confident his team will be able to provide the required coverage for the year over the authority's core financial systems, as well as over other systems which have been deemed to be 'high' and 'medium' risk.

3.10 Customer / Equalities and Diversity Implications

There are no implications arising out of this report.

4. RISK MANAGEMENT

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

- failure to complete the planned programme of audit work for the financial year; and,
- the continuous provision of an internal audit service is not maintained.

These risks are being managed via the 4Risk risk management system within the Finance and Resources risk area.

5. APPENDICES

Appendix	1 ~ Internal Audit Plan delivery 2017/18
Appendix	2 ~ Key performance indicators 2017/18
Appendix	3 ~ 'High' and 'Medium' priority recommendations summary for finalised reports
Appendix	4 ~ Follow up summary

6. BACKGROUND PAPERS

Individual internal audit reports held by Internal Audit.

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7. **KEY**

N/a

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APPENDIX 1

Delivery against Internal Audit Plan for 2017/18
1st April 2017 to 31st July 2017

Audit Area	2017/18 Total Planned Days	Forecasted days to the 30 th September 2017	Actual Days Used to the 31 st July 2017
Core Financial Systems (see note 1)	71	7	3
Corporate Audits	5	0	0
Other Systems Audits (see note 2)	118	87	48
SUB TOTAL	194	94	51
Audit Management Meetings	15	8	5
Corporate Meetings / Reading	5	3	2
Annual Plans and Reports	8	4	2
Audit Committee support	8	4	1
Other chargeable (see note 3)	0	0	0
SUB TOTAL	36	19	10
TOTAL	230	113	61

Notes:

Audit days used are rounded to the nearest whole.

Note 1: Core Financial Systems are audited predominantly in quarters 3 and 4 in order to maximise the assurance provided for Annual Governance Statement and Statement of Accounts but not interfere with year end.

Note 2: A number of the budgets in this section are 'on demand' (e.g. consultancy, investigations) so the requirements can fluctuate throughout the quarters.

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

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APPENDIX 2

Performance against Key Performance Indicators 2017-2018

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2017/18. Other key performance indicators link to overall governance requirements of Bromsgrove District Council e.g. KPI 4 to KPI 6. The position will be reported on a cumulative basis throughout the year.

	KPI	Trend/Target requirement	2017/18 Position (as at 31st July 2017)	Frequency of Reporting
Operational				
1	No. of audits achieved during the year	Per target	Target = Minimum 13 Delivered = 1 plus 3x drafts	When Audit Committee convene
2	Percentage of Plan delivered	>90% of agreed annual plan	26%	When Audit Committee convene
3	Service productivity	Positive direction year on year (Annual target 74%)	67%	When Audit Committee convene
Monitoring & Governance				
4	No. of 'high' priority recommendations	Downward (minimal)	Nil to report	When Audit Committee convene
5	No. of moderate or below assurances	Downward (minimal)	1	When Audit Committee convene
6	'Follow Up' results (Using 2017/18 reviews onward)	Management action plan implementation date exceeded (nil)	Nil to report	When Audit Committee convene
Customer Satisfaction				
7	No. of customers who assess the service as 'excellent'	Upward (increasing)	Nil to report	When Audit Committee convene

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

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APPENDIX 3

Definition of Audit Opinion Levels of Assurance

Opinion	Definition
Full Assurance	<p>The system of internal control meets the organisation's objectives; all of the expected system controls tested are in place and are operating effectively.</p> <p>No specific follow up review will be undertaken; follow up will be undertaken as part of the next planned review of the system.</p>
Significant Assurance	<p>There is a generally sound system of internal control in place designed to meet the organisation's objectives. However isolated weaknesses in the design of controls or inconsistent application of controls in a small number of areas put the achievement of a limited number of system objectives at risk.</p> <p>Follow up of medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Moderate Assurance	<p>The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively therefore increasing the risk that the system will not meet its objectives. Assurance can only be given over the effectiveness of controls within some areas of the system.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Limited Assurance	<p>Weaknesses in the design and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in many of the areas reviewed. Assurance is limited to the few areas of the system where controls are in place and are operating effectively.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
No Assurance	<p>No assurance can be given on the system of internal control as significant weaknesses in the design and / or operation of key controls could result or have resulted in failure to achieve the organisation's objectives in the area reviewed.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>

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Definition of Priority of Recommendations

Priority	Definition
High	<p>Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives.</p> <p>Immediate implementation of the agreed recommendation is essential in order to provide satisfactory control of the serious risk(s) the system is exposed to.</p>
Medium	<p>Control weakness that has or is likely to have a medium impact upon the achievement of key system, function or process objectives.</p> <p>Implementation of the agreed recommendation within 3 to 6 months is important in order to provide satisfactory control of the risk(s) the system is exposed to.</p>
Low	<p>Control weakness that has a low impact upon the achievement of key system, function or process objectives.</p> <p>Implementation of the agreed recommendation is desirable as it will improve overall control within the system.</p>

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APPENDIX 3

‘High’ & ‘Medium’ Priority Recommendations Summary for finalised audits.

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Audit: North Worcester Building Control					
Assurance: Significant					
1	Medium	<p><u>Financial Statement</u></p> <p>There is no evidence of a separate annual financial statement with the breakdown required by the Building Regulations 2010 with an approved Local Authority Signature</p>	<p>Risk of non compliance with legislation to demonstrate that Building Control is breaking even leading to potential reputational damage.</p>	<p>Bromsgrove District Council to satisfy itself that they are acting in accordance with the Building (Local Authority Charges) Regulations 2010 by ensuring that a Fee Charging financial statement is produced at the end of each financial year and is signed off by an appropriate financial officer of the Council</p>	<p>Responsible Manager: Building Control Manager</p> <p>Agreed. The need for a financial statement was complied with by Finance however this was not sufficiently separate from that required by regulation. A separate financial statement will be produced for the end of this current financial year.</p> <p>Implementation date: Close of financial year 17 / 18</p>
end					

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APPENDIX 4

Follow Up

Planned Follow Ups:

In order to continue to monitor progress of implementation, 'follow up' in respect of audit reports is logged. The table provides an indication of the action taken against those audits and whether further follow up is planned. Commentary is provided on those audits that have already been followed up and audits in the process of being followed up.

For some audits undertaken each year follow-ups may not be necessary as these may be undertaken as part of the full audit. Other audits may not be time critical therefore will be prioritised as part of the overall work load so to minimise resource impact on the service area.

Follow up in connection with the core financials is undertaken as part of the routine audits that are performed during quarters 3 and 4.

Follow Up Assurance:

In summary:

- 2013/14 recommendations; satisfied.
- 2014/15 recommendations; one remains, expecting to be completed by end of 2017;
- several 2015/16 reviews continue to have recommendations outstanding and further follow up is scheduled. 3 reviews have been satisfied for 2015/16;
- the majority of 2016/17 recommendations scheduled for follow up during August and September 2017.

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<u>Audit</u>	<u>Date Final Audit Report Issued</u>	<u>Service Area</u>	<u>Assurance</u>	<u>Number of High, Medium and Low priority Recommendations</u>	<u>Date to be 1st Followed up or outcome</u>	<u>2nd Follow Up</u>	<u>3rd Follow Up</u>
					High and Medium Priorities 6mths after final report issued as long as implementation date has passed	High and Medium Priorities still outstanding 3mths after previous follow up as long as implementation date has passed	
2013-14 Audits							
Corporate Fraud	10th December 2014	Executive Director (Finance and Resources) and Head of Legal, Equalities and Democratic Services	Moderate	2 'medium' priority recommendations in relation to Corporate Anti Fraud Awareness, Corporate Fraud Strategy Policy and Protocol	The follow up in March 2016 found that the 2 'medium' priority recommendations were in progress awaiting approval of draft policies.	A follow up was undertaken in Dec 2016 finding the 2 medium priority recommendations remained in progress. The Anti fraud and corruption policy was due approval by committee after this follow up had occurred. The final recommendation can be implemented after approval as it refers to "reviewing the policy in a timely manner". A follow up will take place in three months time.	Approved by Cabinet 14 th June 2017. No further follow up required.
2014-15 Audits							
Equality and Diversity	28 th August 2014	Corporate Senior Management Team	Moderate	1 'high' and 2 'medium' priority recommendations made in relation to training, policy and terms of reference.	Followed up March 15- Policy Manager have confirmed that all recommendations are currently outstanding and not fully implemented but are in progress. Given the impending completion date it would not be appropriate to follow the recommendations up until July 2015.	Follow up in November 2015 found that 1 'medium' priority recommendation in relation to policy has been implemented and the 1 'high' priority recommendation and the other 'medium' priority recommendation in relation to training and terms of reference are in progress. Workshops are to be introduced first half of 2016.	A follow up in September 16 found there was one recommendation outstanding relating to the Equality and Diversity training. All the others have been satisfied. A further follow up will take place in 3 months time. Follow Up 14 February 2017: Discussion with E&D Manager - induction progress is still in progress. Quotes from

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							<p>contractors for in house training are currently being received. Follow up to take place in June when more progress made.</p> <hr/> <p>Follow Up 19th June 2017: Policy Manager confirmed although progress has been made towards implementing training for new starters and existing staff nothing has yet been implemented. Need to go to tender to procure training provider. Aiming for completion of this process and E&D training within 2017.</p>
2015-16 Audits							
Corporate Governance – AGS	22th February 2016	Financial Services Manager	Moderate	1 'high' priority and 3 'medium' priority recommendations; No action plan, compilation of AGS, review of terminology and circulation of document	A follow up took in September 2016 and found 3 recommendations were in progress these related to the circulation of the AGS, action plan and the responsibility for compilation of the AGS. 1 recommendation was still to be actioned relating to a review of the AGS. A follow up will take place in four months time.	Follow up undertaken February 2017. Due to change of Financial Service Manager, the interim manager will pick up AGS as part of job.	A follow-up was undertaken in July 2017. The follow up has found that full implementation of the 1 'medium' priority recommendation detailed above was not required, as there is a sufficient process in place to enable Heads of Service to challenge and comment on the Annual Governance Statement, and therefore reduce the risk of challenge to the authority. Sufficient action has been taken regarding the

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							recommendation, further follow-up required.	No follow-up is required.
S106s - Planning obligations	08th February 2016	Head of Planning and Regeneration, Financial Services Manager, Principal Solicitor	Critical review	Challenge points and good practice in relation to Committee Reporting, Policies/Procedures, Waste Services Contributions, Project Contribution areas, Central Finance Spreadsheet, Withdrawn Planning Applications, Online Publication and Retention and Income Management	The follow up in September 2016 found that the service is progressing with the challenges. The follow up confirmed out of the nine challenges made Management have actioned five of them and have/are giving due consideration to the remaining ones relating to the contributions formula being updated, process to monitor amount of developers per project and uploading of S106 agreements. Further follow up planned in 6 months time.	The follow-up was undertaken in June 2017. Of the remaining four challenges, two relating to monitoring developments and uploading agreements to the public website have been actioned, the one relating to updating the contribution formula is progressing, and the one relating to committee reporting format is under consideration. Internal audit are satisfied with the overall direction of travel in addressing these issues. No further follow-up is required.		
CCTV	31th March 2016	Head of Community Services	Critical review	Challenge points and good practice in relation to Training and the CCTV system.	Follow up in September 2016 found two of the challenges have been actioned but there is more progress to be made relating to access rights to CCTV and a new anti-social behaviour policy. A further follow up will take place in April 2017	Follow up undertaken in April 2017. Audit had a discussion with both responsible managers on 10.05.17, both positions same as previous follow up. Restructure is still to take place and the Anti-social behaviour policy still to be finalised. Agreed to go back in 6 months. Further follow up date November 17		
Accounts Reconciliations	31th March 2016	Executive Director - Finance and Resources and Financial Services Manager	Critical Review	Challenge points and good practice in relation to Frequency and Training, Procedure Notes, Responsibilities and the	A follow up undertaken in October 2016 found that the service have a clear direction of travel in relation to the challenges made	A follow up undertaken in January 2017 found that the service have a clear direction of travel in relation to the challenges made however one	Follow up undertaken April 2017. Implementation was delayed due to change in staffing.	

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				Saffron System	however one challenge relating to reconciliation procedure notes still needs to be actioned therefore there will be a further follow up in 3 months time.	challenge relating to reconciliation procedure notes still needs to be actioned therefore there will be a further follow up in 3 months time.	A further follow-up was undertaken in July 2017. The remaining recommendation in relation to procedural notes is no longer required due to changes in how the reconciliation practices are managed, which have lead to greater resilience within the team for ensuring these are done correctly and in a timely manner. No further follow-up is required.
Consultancy and Agency	13th June 2016	Corporate and Senior Management Team	Limited	2 'high' and 3 'medium' priority recommendations in relation to Matrix, Procurement procedures, Post transformation reviews, professional indemnity Insurance and accuracy of invoices received.	A follow up took place in December 2016 which found that 4 recommendations are still in progress relating to the use of Matrix, the procurement procedures, outcomes set for the use of agency staff and processing invoices. One recommendation is still to be actioned reliant on the outcome of a recommendation. A further follow up will take place in 6 months time.	Follow up undertaken in May 2017. Audit had a discussion with the Director of Finance and Resources on 10.05.17, the review of Matrix is still in progress. As several recommendations rely on the matrix review being completed no official follow up will take place until this date. Further follow up date November 2017	
Regulatory Services	08th June 2016	Head of Regulatory Services	Critical Review	Time recording challenges in relation to Systems Specification, Policies & Guidance, Coding Structure, Fee Earners, Performance Measurement and Database Accuracy.	A follow up took place in December, it found that 2 challenges had been actioned, 4 considered, and, 1 considered however still awaiting further action. The direction of travel the service is making is positive. A further follow up will take place in 6 months time.	Follow up undertaken in July 2017 which found all the challenges raised had been satisfied. No further follow up is required.	

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2016-17 Audits							
Customer Services	28th September 2016	Customer Services	Significant	2 medium priority recommendations were made in relation to training records and health and safety training and the formally documenting the minutes of meetings	A follow up was undertaken in February and found that 1 recommendation relating to training has been implemented and 1 recommendation relating to documenting meetings is in progress. A further follow up will take place in 6 months time.	Aug 17	
Human Resources Training and Development	30th December 2016	Human Resources Manager	Moderate	Business Transformation This audit report made 1 high priority recommendation relating to employee mandatory and refresher training, and 3 medium priority recommendations relating to purpose of training, employee induction and identifying training needs. A follow up will take place in 4 months time.	A follow up took place in March 17 and found 2 recommendations are in progress relating to meeting training needs and mandatory / refresher training. 2 recommendations are still to be actioned dependent on the implementation of HR21. A follow up will take place in 6 months time.	Sept 17	
Insurance	13th January 2017	Corporate	Critical Friend	This audit gave 3 recommendations to all 5 authorities, these related to, documentation of claims, insurance risk on risk register and admin and claim handling fee. This will be follow up in 6 months time.	Aug 17		
Dash Board & Performance Measures	3rd May 2017	Business Transformation	Limited	An audit took place in May 2017 and made 3 high and 1 medium priority recommendations relating to resilience, timeliness of reporting, integrity of information and information held.	Aug 17		

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Worcester Regulatory Services	26th May 2017	WRS	Moderate	This audit made 1 high priority recommendation and 2 medium priority recommendations relating to payment for licences granted, cheque payment and application forms. A follow up will take place in 3 months time.	1st follow up took place on 30/8/17 no recommendations have been implemented but work towards had been progressed and there is research looking at moving into electronic application which all districts will have to agree to. A further follow up will take place in 6 months	Feb 18	
Risk Management	24th May 2017	Executive Director	Limited	This audit made 5 medium priority recommendations relating to corporate risk management strategy, risk management group, risk register updates, portfolio holder monitoring and training. A follow up will take place in 3 months time.	Sept 17		
2017-18 Audits							
Building Control	10th August 17	Planning & Regeneration	Significant	The report made one medium recommendation relating to the production of a financial statement regarding Building Control. This is to be produced at the end of the financial year.	May 2018		
end							