

BROMSGROVE DISTRICT COUNCIL

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 14th MARCH 2019

THE INTERNAL AUDIT PROGRESS 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 | Chris Forrester, 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 2018/19 to the 31st January 2019.

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 2018 to 31st January 2019 against the performance indicators agreed for the service.

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AUDIT REPORTS ISSUED/COMPLETED SINCE THE LAST PROGRESS REPORT (24th January 2019):

3.5 2018/19 AUDIT SUMMARY UPDATES:

Treasury Management

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

- The general transparency of treasury activities during the financial period in achieving best value;
- General IT controls in relation to the segregation of duties;
- Regular monitoring of cash flow and treasury activities to determine on-going cash requirements.

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

- Ledger Coding and & Reconciliation
- User Access
- Procedures for Borrowing/ Lending Between Authorities
- Benchmarking

There were 2 'medium' and 2 'low' priority recommendations reported.

Type of Audit: Full System

Assurance: Significant

Final Report Issued: 17th January 2019

Summary of Assurance Levels:

| <u>Audit</u> | <u>Assurance Level</u> |
|-----------------------|-------------------------------|
| <u>2018/19</u> | |
| Treasury Management | Significant |

3.6 2018/19 AUDITS ONGOING AS AT 31st JANUARY 2019

The following audits were at clearance or draft report awaiting management sign off stage:

- Health and Safety
- General Data Processing Regulations
- Universal Credit
- On Street and Off Street Parking
- Council Tax
- National Non Domestic Rates

Audits progressing through fieldwork stages included:

- Housing Benefits
- Creditors
- Debtors
- Main Ledger

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- Procurement
- Risk Management
- Transport (Fleet Management)
- Bromsgrove Energy Efficiency Fund (BEEF)

Audits progressing through planning stage included:

- Worcester Regulatory Services (Complaints)

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.

A rolling testing programme on Debtors and Creditors has been undertaken during quarter 2 and continued through quarter 3. Testing results so far do not indicate any new or emerging risks to be brought to the attention of Committee. The rolling testing programme results are being amalgamated as at the end of quarter 3 and formal audit reports issued with any findings during quarter 4.

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 January 2019 a total of 161 days had been delivered against a target of 230 days for 2018/19.

Appendix 2 shows the performance indicators for the service. These indicators were agreed by the Audit, Standards and Governance Committee on the 15th March 2018 for 2018/19.

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

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- 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

3.9 National Fraud Initiative

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. Worcestershire Internal Audit Shared Service (WIASS) has a coordinating role in regard to this investigative exercise in Bromsgrove District Council. The data requirements were uploaded during October and December with any queries dealt with accordingly.

3.10 Monitoring

To ensure the delivery of the 2018/19 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. Due to changing circumstances and after consultation a small variation in the plan has been agreed on a risk priority basis with the s151 Officer e.g. shared services which was joint with Redditch Borough Council has been removed. Additional days have been used in a couple of review areas e.g. Health and Safety and GDPR to ensure comprehensive reviews were completed.

3.11 Customer / Equalities and Diversity Implications

There are no implications arising out of this report.

3.12 WIASS is committed to providing an audit function which conforms to the Public Sector Internal Audit Standards (as amended). 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.

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

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,

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- the continuous provision of an internal audit service is not maintained.

5. APPENDICES

| | |
|----------|--|
| Appendix | 1 ~ Internal Audit Plan delivery 2018/19 |
| Appendix | 2 ~ Key performance indicators 2018/19 |
| Appendix | 3 ~ 'High' and 'Medium' priority recommendations summary for finalised reports |
| Appendix | 4 ~ Follow up summary |

6. BACKGROUND PAPERS

Individual internal audit reports are held by Internal Audit.

7. KEY

N/a

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APPENDIX 1

Delivery against Internal Audit Plan for 2018/19 1st April 2018 to 31st January 2019

| Audit Area | 2018/19 Total Planned Days | Forecasted days to the 31st March 2019 | Actual Days Used to the 31st January 2019 |
|--|---|--|---|
| Core Financial Systems (see note 1) | 52 | 52 | 37 |
| Corporate Audits (see note 4) | 39 | 39 | 29 |
| Other Systems Audits (see note 2) | 103 | 103 | 70 |
| SUB TOTAL | 194 | 194 | 136 |
| Audit Management Meetings | 15 | 15 | 12 |
| Corporate Meetings / Reading | 5 | 5 | 5 |
| Annual Plans, Reports and Committee Support | 16 | 16 | 8 |
| Other chargeable (see note 3) | 0 | 0 | 0 |
| SUB TOTAL | 36 | 36 | 25 |
| TOTAL | 230 | 230 | 161 |

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, however, a rolling programme has also been trialled this financial year. The results will be reported during Q4.

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 IT provision resulting in lost productivity.

Note 4: Extra days have been required in regard to 2 review areas, GDPR and Health and Safety as additional work was required after the review had commenced.

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APPENDIX 2

Performance against Key Performance Indicators 2018-2019

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2018/19. Other key performance indicators link to overall governance requirements of Bromsgrove District Council e.g. KPI 4. The position will be reported on a cumulative basis throughout the year.

| | KPI | Trend/Target requirement | 2018/19 Position (as at 31st January 2019) | Frequency of Reporting |
|------------------------------------|--|--|--|---------------------------------|
| Operational | | | | |
| 1 | No. of audits achieved during the year | Per target | Target = Minimum 13 Delivered = 2 (covering 4 reviews) 6 @ clearance/draft report and 8 in progress | When Audit Committee convene |
| 2 | Percentage of Plan delivered | >90% of agreed annual plan | 70% | When Audit Committee convene |
| 3 | Service productivity | Positive direction year on year (Annual target 74%) | *68% | 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 (2017/18 reviews onwards) | Management action plan implementation date exceeded (nil) | 1 | When Audit Committee convene |
| Customer Satisfaction | | | | |
| 7 | No. of customers who assess the service as 'excellent' | Upward (increasing) | 2 | When Audit Committee convene |

WASS conforms to the Public Sector Internal Audit Standards (as amended).

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* Below target figure due to 4 new starters in April 2018 and a period of settling in and training. Coaching and mentoring is continuing, however, the overall productivity figure is beginning to show a positive trend increasing from a previously reported figure of 58% to 68%

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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: Treasury Management | | | | | |
| Assurance: Significant | | | | | |
| 1 | Medium | <p><u>Ledger Coding and & Reconciliation</u></p> <p>There have not been any formal periodic reconciliations of treasury management activities in the ledger for either Council during the 2018/19 financial period.</p> <p>It was noted during audit testing that many of the Redditch Borough Council Investment and Borrowing transactions are not being correctly coded on the ledger. Transactions are coded by the Town Hall Cashiers instead of the Finance team.</p> | <p>Failure to correctly account for financial transactions on the ledger, potentially resulting in reputational damage to the Councils.</p> | <p>There needs to be a formal reconciliation of treasury management activities against the ledger postings at agreed intervals to be determined by the Finance Team, to ensure all financial activities have been fully accounted for and coded correctly.</p> <p>To achieve consistency and accuracy the responsibility of coding treasury activities on the ledger is to be reconsidered with additional training being provided to staff if appropriate.</p> | <p>Finance to review whether the reconciliation function currently carried out by cashiers can be relocated to the reconciliation team in central finance. Treasury team to undertake reconciliations of transactions once posted on a monthly basis.</p> <p>Responsible Officer: Financial Services Manager</p> <p>Implementation Date: March 2019</p> |
| 2 | Medium | <p><u>User Access</u></p> <p>A user account for an Accountancy Trainee with access to the iDealTrade system was not removed at the time of leaving. In addition, the request to remove the user from the Council network was not submitted until almost 3 months after the employee left, and after being queried by the Internal Audit team.</p> | <p>Failure to control access to key systems resulting in potential breaches which could result in reputational or financial loss for the authority.</p> | <p>Ensure procedures for removing network access for previous employees are followed. Additional system access must also be removed in a timely manner, and monitored by senior officers in the Finance team. Current access requirements to be reviewed on a periodic basis.</p> | <p>User access to be reviewed each time a staff member leaves/joins/changes role in the department.</p> <p>Responsible Officer: Financial Services Manager</p> <p>Implementation Date: Jan 2019</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:

- 2016/17 reports; one ongoing with progress taking place but exceeding the target delivery;
- 2017/18 reports; five reviews being followed up in the coming months;
- 2018/19 report; one review being followed up in the coming months.

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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 | |
| 2016-17 Audits | | | | | | | |
| 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. | A follow up in May 2018 found that 2 high priority recommendations in relation to resilience and timeliness and the 1 medium priority recommendation in relation to additional information had been implemented. The high priority recommendation in relation to integrity of information was in progress. Follow Up February 2019. | Follow up undertaken on the 25 th January 2019 confirmed all actions had been taken and the outstanding recommendation had been satisfactorily implemented. No further follow up required. | |
| 2017-18 Audits | | | | | | | |
| Disabled Facilities Grants | 28th September 2017 | Community Services | Moderate | The report found 1 high priority and 2 medium priority recommendations in relation to Records retention and security, Registration of Land Charges and Private Sector Home Repairs Assistance policy. Only 1 medium priority recommendation related directly to Bromsgrove District Council. | The follow up in February 2018 found that the one medium priority recommendation was in progress and the policy update would be reported to Cabinet in June 2018. No evidence that this took place therefore further follow up to take place. Follow up planned 28 th January 2019. | Follow up undertaken on the 28 th January 2019 confirmed policy reporting before Members remained outstanding but is due to be reported to Cabinet April 2019. Follow up required May 2019. | |
| Environmental Waste | 27th November 2017 | Environmental Services | Moderate | The report found 1 high and 4 medium priority recommendations in relation to Bulky Waste Receipt Books, Business Waste Charges, Fees and Charges, Bulky Waste | Follow up January 2019 found the 4 medium priority recommendations were satisfied and the high priority recommendation was in | | |

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| | | | | | | | |
|------------------------------------|--------------------------------|------------------------------------|-------------|---|--|--|--|
| | | | | quotes and Garden Waste Invoices. | progress pending further transformation of the Business Support Team re. reconciliation and controlled stationery. Follow up required in April 2019. | | |
| Records Management | 5th January 2017 | Corporate | Limited | Reported 5 high and 1 medium priority recommendations; implementation of the information security policy, inventory of IT equipment, retention and disposal schedule, confidential waste collection, storage of documents on the Orb and GCSx email accounts. | Follow up February 2019 found 4 'high' and one 'medium' priority recommendations have been satisfactorily implemented with the final 'high' priority recommendation re. confidential waste to be completed on the 1 st April 2019 on the transfer of the responsibilities from PPL. Follow up required in April 2019. | | |
| Worcestershire Regulatory Services | 19th July 2018 | Worcestershire Regulatory Services | Moderate | Reported 4 medium priority and 2 low priority recommendations; Risk assessment, Subsistence Fees, Outstanding Invoices, Inspections | To be followed up as part of the 2018/19 WRS audit. (March 2019) | | |
| Benefits | 30th July 2018 | Revenues & Benefits | Significant | Reported 3 medium and 2 low priority recommendations; Overpayment, Write-Offs, Performance Information, Overpayment Classification and User Access Reviews | To be followed up as part of the 2018/19 Benefits audit. (January/February 2019) | | |
| 2018-19 Audits | | | | | | | |
| Welfare Benefits (3x reviews) | 23 rd November 2018 | Benefits | Moderate | Reported 4 Medium and 2 Low Priorities. Recommendations; Transparency of the Welfare Budgets, Accuracy of recording expenditure and reporting, Current expenditure of the Welfare Benefits, Record Keeping, System, Policies. | To be followed up in May 2019 | | |
| end | | | | | | | |