

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

3rd July 2014

INTERNAL AUDIT - ANNUAL REPORT 2013/14

Relevant Portfolio Holder	Councillor John Fisher
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

To present to Members:

- the Internal Audit Annual Report for 2013/14; and,
- the 2013/14 Worcestershire Internal Audit Shared Services Manager’s annual opinion on the overall adequacy of the Council’s internal control environment (Appendix 3).

2. RECOMMENDATIONS

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 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 This report provides an overview of the utilisation of Internal Audit resources during 2013/14.
- 3.4 **Appendix 1** shows during 2013/2014 there were 475 productive audit days. This equates to a delivery of 98% against an agreed target for the year of 90%.

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- 3.5 **Appendix 2** provides a breakdown of the audits completed and the overall assurance.
- 3.6 The Worcestershire Internal Audit Shared Service has achieved and delivered the full 2013/2014 audit plan.
- 3.7 For 2013/14 the Annual Audit Plan was approved by the Audit and Governance Committee on 18th March 2013. The Internal Audit Plan was risk based (assessing audit and assurance factors, materiality risk, impact of failure, system risk, resource risk fraud risk, and external risk) using a predefined scoring system. It included:
- a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion' and other corporate systems for example governance and
 - a number of operational systems, for example, Kingsley Sports Centre, Corporate Compliments and Complaints, Playing Fields and Football Pitches, Rent Arrears, payment and Collection 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, process re-engineering and transformation are taken into consideration within the annual plan.
- 3.9 The purpose of the 2013/14 Annual Plan was to aid the effectiveness of the Internal Audit function and ensure that:
- Internal Audit assisted the Authority in meeting its objectives by reviewing the high risk areas, systems and processes,
 - Audit plan delivery was monitored, appropriate action taken and performance reports issued on a regular basis,
 - The key financial systems are reviewed annually, enabling the Authority's external auditors to place reliance on the work completed by Internal Audit,
 - An opinion can be formed on the adequacy of the Authority's system of internal control (reported in **Appendix 3**), which feeds into the Annual Governance Statement which is presented with the statement of accounts.
- 3.10 2013/14 was a demanding year for the Internal Audit team with the loss of two Auditors early in the year, managing a return to work after long term sickness as well as training and mentoring two new auditors who joined the team. There was a need to vacancy manage posts for a significant proportion of the year in order to offset the interim resource that was used to ensure WIASS could deliver the risk based internal

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audit plan. Internal Audit has carefully managed its resource and worked with partners to deliver the full audit programme for Redditch Borough Council for 2013/14.

Quality Measures

- 3.11 Managers are asked to provide feedback on systems audits by completing a questionnaire. At the conclusion of each audit a feedback questionnaire is sent to the Responsible Manager and an analysis of those returned during the year shows very high satisfaction with the audit product – see Appendix 2.
- 3.12 To further assist the Committee with their assurance of the overall delivery the Worcestershire Internal Audit Shared Service conforms to Public Sector Internal Audit Standards 2013.
- 3.13 During 2013/14 (and up to the drafting of this report) 26 final audit reports along with 2 draft reports have been issued and one audit is at clearance stage. Summaries of these audit reports, plus the Auditors opinion on the effectiveness of the controls operating within those areas and an action plan containing recommendations to address the identified control weakness, have been reported to the Audit & Governance Committee on an ongoing basis throughout the year.
- 3.14 Based on the audits performed in accordance with the audit plan the Worcestershire Internal Audit Shared Services Manager has concluded that the internal control arrangements during 2013/14 effectively managed the principal risks identified in the audit plan.
- 3.15 Worcestershire Internal Audit Shared Service Internal Audit activity is organisationally independent. Internal Audit reports to the s151 Officer but has a direct and unrestricted access to senior management and the Audit & Governance Committee.
- 3.16 Further quality control measures embedded in the service include individual audit reviews and regular Client Officer feedback. All staff work to a given methodology and have access to the internal audit manual and Charter which has been updated to reflect the requirements of the standards.
- 3.17 The Client Officer group meet on a regular basis and consider the performance of the Shared Service including progress against the Service Plan, and, promote continuous improvement.
- 3.18 Risk Management features as part of the audit programme for the year. Reports are brought before the Audit Committee for consideration.

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- 3.19 Work is continuing in respect of the NFI exercise. Appropriate action is being taken and work is progressing to identify any potential fraudulent activity for example overpayment for housing benefits, income support, etc. The amount of fraudulent activity identified by the 2012/13 exercise as at the 29th April 2014 for Redditch Borough Council was £27,008.15.
- 3.20 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 seek to place reliance on such work thus reducing the internal audit coverage as required

Annual Governance Statement ~ Assurance Checklist Statements 2013/14

- 3.21 It is the responsibility of management to maintain the Authority's internal control framework and ensure that controls are being complied with.
- 3.22 In order to ascertain management's view on this and in order to identify any areas where current or emerging risks in relation to internal controls may exist all Fourth Tier Managers were asked to complete an internal control checklist covering Strategic and Operational, Human Resources, Corporate Procedure Documents, Service Specific Procedures, Risk Management and Anti Fraud, Performance Management and data Quality, Inventories and independent recommendations from outside bodies including audit.
- 3.23 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.
- 3.24 All of the Annual Governance Statement Assurance Checklist Statements have been returned, Review of the returned statements indicates that although in a few areas control requirements are only being partially met they do not identify any areas that present a significant and material risk.

Work of interest to the External Auditor

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

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Audit. Audit reports are passed to the external auditor on request for their information.

External Work

- 3.26 The work to deliver the Hereford and Worcester Fire and Rescue Service internal audit contract was predominantly completed during 2013/14 with only management responses awaited in order to finalise two audits. Threadneedle House in Redditch was also delivered during 2013/14 along with the Bus Operators Grant which was also audited during the year for grant claim purposes. Internal Audit was able to advise there were no material mis-statements contained in the Threadneedle House accounts or grant claims.

3.27 Anti-Fraud and Corruption Survey.

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

Customer / Equalities and Diversity Implications

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

4. RISK MANAGEMENT

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

- Non-compliance with statutory requirements.

5. APPENDICES

Appendix 1 Delivery against plan 2013/14
Appendix 2 Audits completed with Assurance 2013/14
Appendix 3 Service Managers Audit Opinion and Commentary

6. BACKGROUND PAPERS

None

7. KEY

N/a

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APPENDIX 1

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

Audit Area	DAYS USED TO 31/03/14	2013/14 PLAN DAYS
Core Financial Systems (Note 1)	119	114
Corporate Audits(Note 2)	138	155
Other Systems Audits	160	161
TOTAL	417	430
Audit Management Meetings	20	20
Corporate Meetings / Reading	9	9
Annual Plans and Reports	10	12
Audit Committee support	12	13
Other chargeable	7	0
TOTAL	58	54
GRAND TOTAL	475	484

Note 1

Core Financial Systems are audited in quarters 3 and 4 in order to maximise the assurance provided for the Annual Governance Statement and Statement of Accounts. Small number of additional days required to deliver the full core financial programme.

Note 2

Budgets in this section were not fully required due to the areas of work and audit scoping and focus. This did not compromise the overall audit plan delivery.

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Appendix 1

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

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

	KPI	Trend requiremen t	2012/13 Year End Position	2013/14 Position (as at March 2014)	Frequency of Reporting
1	**No. of high priority recommendations	Downward	12	*21	Quarterly
2	No. of moderate or below assurances	Downward	10	*11	Quarterly
3	No. of customers who assess the service as excellent	Upward	2	5 (8 returns; 5 excellent & 3 good)	Quarterly
4	No. of audits achieved during the year	Per target	Target = 29 Delivered =27 &(2x Draft Reports)	Target =29 Delivered = 26 Final Reports 2 Draft Report & 1 Clearance Stage	Quarterly

** Although this indicator can be used as a year on year trend indicator it must be remembered that different audit areas are examined each year and depending on particular outturns (i.e. one audit area could be attract several high priority recommendations for example 2013/14 Palace Theatre had 4 high priority recommendations) this figure can fluctuate.

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

WIASS operates within and seeks to conform to the Public Sector Internal Audit Standards.

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Appendix 2

Audit Opinion Analysis ~

Audits completed during financial year 2013/2014:

Audit Report / Title 2013 - 2014	Final Report Issued	Assurance Level
Dial-A-Ride	24th June 2013	Significant
Building Control	29th October 2013	Significant
DFGs	10th December 2013	Significant
Debtors	16th January 2014	Significant
Main Ledger	19th February 2014	Significant
Benefits	7th March 2014	Significant
Council Tax	24th March 2014	Significant
VAT	31st March 2014	Significant
Treasury Management	16th April 2014	Significant
Art Development	30th April 2014	Significant
Rent Verification	30th April 2014	Significant
Woodland Management - Income	1 st May 2014	Significant
Mutual Exchanges	12 th June 2014	Significant
Allotments	24th October 2013	Moderate
Cash Collection	26th February 2014	Moderate
NDR	24th March 2014	Moderate
Creditors	1st April 2014	Moderate
Payroll	20th May 2014	Moderate
Shared Services - Regulatory	30th May 2014	Moderate
Palace Theatres	25th October 2013	Limited
Kingsley Sports Centre	7th March 2014	Limited
Risk Management	30th April 2014	Limited
Sports Development	19th May 2014	Limited
Corporate Fraud	1 st May 2014	Limited
Playing Fields and Football Pitches	6th March 2014	N/a ~ Critical Review
Corporate Compliments and Complaints	4th April 2014	N/a ~ Critical Review
ICT	9 th May 2014 (D)	No (D)
Corporate Governance - Protecting the Public Purse	9 th May 2014 (D)	N/a ~ Critical Review (D)
S106 Agreements	Clearance	To be confirmed
<u>2012-2013</u>		
Corporate Governance - Shared Services 2012-13	9th May 2014	N/a Critical Review

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Summary of 2013/14 Audit Assurance Levels.

2013/14	Number of RBC Audits	Assurance	Overall %
From 29 audits	0	Full	0%
	13	Significant	45%
	6	Moderate	20%
	5	Limited	17%
	1	No	4%
	1	To be confirmed	4%
	3	N/a	10%

Client Feedback Analysis ~ IA Reporting

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

- The majority of auditees were more than happy with the process and format of the audits. This continues to be further developed.
- A Manager commented, "Audit report highlighted areas that we expected and gave the evidence to make continuing improvements".
- There is a high satisfaction rate with the audit product from the data received.

8 questionnaires received; 5 returned as 'excellent' and 3 as 'good'.

Overall Conclusions:

- 75% of the audits undertaken for 2013/14 which have received an assurance allocated returned an assurance of 'moderate' or above. This figure is inclusive of the critical friend audits i.e. 'N/A'.
- Clients are satisfied with the audit process and service from the data received.

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Appendix 3

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

1. Audit Opinion

- 1.1 The internal audit of Redditch Borough Council's systems and operations during 2013/14 was conducted in accordance with the Internal Audit Annual plan which was approved by the Audit and Governance Committee on 23rd January 2013.
- 1.2 The Internal Audit function was set up as a shared service in 2010/11 and hosted by Worcester City, for 5 district councils. The shared service operates within, and conforms to, the Institute of Internal Auditors Public Sector Internal Audit Standards and objectively reviews on a continuous basis the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic and effective use of resources.
- 1.3 The Internal Audit Plan for 2013/2014 was risk based (assessing audit and assurance factors, materiality risk, impact of failure, system risk, resource risk fraud risk, and external risk) using a predefined scoring system. It included:
 - a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion' and other corporate systems for example governance and
 - a number of operational systems, for example, Kingsley Sports Centre, Corporate Compliments and Complaints, Playing Fields and Football Pitches, Rent Arrears, payment and Collection were looked at to maintain and improve its control systems and risk management processes or reinforce its oversight of such systems.
- 1.4 The required audit reports identified in the plan were delivered and have helped to provide sufficient coverage for the Service Manager to form an overall audit opinion..
- 1.5 In relation to the twenty nine reviews that have been undertaken, twenty six have been completed and three are nearing completion at clearance meeting or draft report stage. Risk management was re-

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launched during 2012/13 with a Corporate Risk Register being formulated and training being provided. However, further development and embedding is required to move towards a trustworthy system which can be relied upon. An audit in this area returned an assurance level of 'limited assurance'. Further work is required to embed this throughout the organisation with the outcomes being monitored by the Risk Management Group. Other areas which also returned an assurance level of 'limited' included Corporate Governance ~ Fraud, Palace Theatres, Kingsley Sports Centre, and Sports Development. A key area which returned a 'no' assurance level was ICT. All areas where assurance was 'limited' or below will be addressed by management and have a defined action plan in place in order to address the weaknesses and issues identified. Where audits are to be finalised a comprehensive management action plan will be required and agreed by the s151 Officer.

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

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upon to ensure that the Council's corporate objectives have been met. However, there is a significant risk emerging which could jeopardise this in the future. With the austerity measures and the need to reduce the overall Corporate budget the transformation plan and 'unspecified' savings require greater clarity to ensure better transparency, expectation and accountability in order to ensure the Borough can work towards a sound financial footing.

Andy Bromage
Worcestershire Internal Audit Shared Services Manager
June 2014