

**AUDIT, GOVERNANCE & STANDARDS
COMMITTEE**

2nd July 2015

INTERNAL AUDIT - ANNUAL REPORT 2014/15

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

1.1 To present to Members:

- the Internal Audit Annual Report for 2014/15; and,
- the 2014/15 Worcestershire Internal Audit Shared Services Manager’s annual opinion on the overall adequacy of the Council’s internal control environment (Appendix 3)

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 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 2014/15.

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- 3.4 Appendix 1 shows during 2014/2015 there were 470 productive audit days used against a budget of 484. This equates to a delivery of 97% against an agreed target for the year of 90%.
- 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 2014/2015 audit plan.
- 3.7 For 2014/15 the Annual Audit Plan was approved by the Audit, Governance and Standards Committee on 24th April 2014. 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, Forge Mill, Housing Repairs and Maintenance Golf Course, Rent Guarantees and Deposits were looked at to maintain and improve control systems and risk management processes or reinforce 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 2014/15 Annual Plan was to aid the effectiveness of the Internal Audit function and ensure that:
- Internal Audit assisted the Authority in meeting its 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.

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- 3.10 2014/15 was a demanding year for the Internal Audit team with the loss of an Auditor mid way through the year but overall there has been more stability in the team. Internal Audit has carefully managed its resource and worked with partners to deliver the full audit programme (as revised) for Redditch Borough Council for 2014/15.

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 2014/15 (and up to the drafting of this report) 23 final audit reports along with 6 draft reports have been issued along with an investigation. 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 and Standards Committee on an on going 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 2014/15 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 and Standards 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 is reviewed regularly.
- 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.

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- 3.18 Risk Management features as part of the audit programme for the year. Reports are brought before the Committee for consideration.
- 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 6th May 2015 for Redditch Borough Council was £49,860.40. This is a biennial exercise. The last significant data extract was during 2014/15 and is currently being worked on.
- 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 2014/15

- 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 work continues to strengthen some control requirements they did not identify any areas that present a significant and material risk.

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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 eight systems audits will be of direct interest to External 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 2014/15 with only management responses awaited in order to finalise two audits. Threadneedle House in Redditch was also delivered during 2014/15 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.

Anti-Fraud and Corruption Survey.

- 3.27 The Protection the Public Purse anti fraud and corruption survey was completed by Internal Audit and submitted on the 1st May 2015 in respect of financial year 2014/15. 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.

Follow Up Work

- 3.28 An on going programme of 'follow up' in regard to the implementation of audit report recommendations continued during 2014/15. The outcome of the 'follow up' work is reported to the Committee on an exception basis as part of the progress reports. During 2014/15 there have been no exceptions to report in regard to follow up audit work. The 'follow up' audit work undertaken during 2014/15 has been reported in Appendix 2.

Customer / Equalities and Diversity Implications

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

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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 2014/15

Appendix 2 Audits completed with Assurance 2014/15

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 2014/15
1st April 2014 to 31st March 2015

Audit Area	2014/15 PLAN DAYS	DAYS USED TO 31/03/15
Core Financial Systems (Note 1)	112	111
Corporate Audits(Note 2)	160	143
Other Systems Audits	158	159
TOTAL	430	413
Audit Management Meetings	20	21
Corporate Meetings / Reading	9	9
Annual Plans and Reports	12	12
Audit Committee support	13	13
Other chargeable (Note 3)	0	2
TOTAL	54	57
GRAND TOTAL	484	470

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

'Other Systems Audits' include budgets which are used throughout the year as well as those budgets which are used for specific events (e.g. investigations) on a draw down basis therefore the amount of days used can fluctuate across the financial year quarters, or, remain unused at the year end

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and are reflected in the reported figure. This did not compromise the overall audit plan delivery.

Note 3

2 days 'other chargeable' relate to audit time whereby there was considerable disruption in the delivery of the service due to technical issues at the Town Hall e.g. ICT system delivery interruption.

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

The success or otherwise of the Internal Audit Shared Service can be measured against some of the following key performance indicators for 2014/15 i.e. KPI 3 and 4. Other key performance indicators link to overall governance requirements of Redditch Borough Council.

	KPI	Trend requirement	2012/13 Year End Position	2013/14 Year End Position	2014/15 Year End Position	Frequency of Reporting
1	**No. of high priority recommendations	Downward	12	21	**3	Quarterly
2	No. of moderate or below assurances	Downward	10	12	*9	Quarterly
3	No. of customers who assess the service as excellent	Upward	2	5 (8 returns; 5 excellent and 3 good)	4 (7 returns; 4 excellent and 3 good)	Quarterly
4	No. of audits achieved during the year	Per target	Target = 29 Delivered = 29 Reports	Target = 29 Delivered = 29 Reports	Target =24 (minimum) Delivered = 23 Final Reports 6 Draft Reports	Quarterly

Note:

** 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 outcomes 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 2014/2015:**

Audit Report / Title 2014 - 2015	Final Report Issued	Assurance Level
Planning Enforcement	3rd September 2014	Significant
Rent Arrears	27th October 2014	Significant
Elections	27th October 2014	Significant
Rent Guarantee and Deposits	5th November 2014	Significant
DFGS and HRAs	12th November 2014	Significant
Asset Management	20th November 2014	Significant
Treasury Management	28th November 2014	Significant
Procurement	18th December 2014	Significant
Debtors	5th January 2015	Significant
Council Tax	6th February 2015	Significant
Benefits	11th February 2015	Significant
Creditors	15th May 2015	Significant
Payroll	15th May 2015	Significant
Corporate Governance - Appointments to Outside Bodies	20 th April 2015 (D)	Significant (D)
Land Charges 2014/15	18th July 2014	Moderate
Planning Fees	3rd September 2014	Moderate
Data, Security, Publication and Disposal	9th September 2014	Moderate
Housing Repairs and Maintenance	22nd January 2015	Moderate
Cash Receipting	29th January 2015	Moderate
Forge Mill	6th February 2015	Moderate
Reddicards	11th February 2015	Moderate
NNDR	6th February 2015	Moderate
Main Ledger	17 th June 2015 (D)	Moderate (D)
Golf Course	28th November 2014	Limited
Housing Repairs Special	5th February 2015	N/A Critical Friend
Risk Management	26 th May 2015 (D)	N/A Critical Friend (D)
Budget Setting	26 th May 2015 (D)	N/A Critical Friend (D)
Shared Service		
ICT	27th March 2015 (D)	N/A Critical Friend (D)
Worcestershire Regulatory Services	25 th March 2015 (D)	Limited (D)

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Follow Up		
2012-13 / 2013-14 Leisure (incl. Kingsley, Sports Development)	25th February 2015	October 2014 follow up outcome further follow up arranged
2012-13 - Grants to Voluntary Bodies	23rd April 2014	Satisfied April 2014
2012-13 - Landscaping and Grounds Maintenance	7th May 2014	Satisfied January 2015
2012-13 - Street Scene	7th May 2014	April 2014 follow up outcome further follow up arranged
2012-13 – Stores, Depot & Small Plant	27 th March 2013	Satisfied January 2015
2012-13 Markets	18 th March 2013	Satisfied September 2014
2012-13 Crematorium & Cemeteries	26 th April 2013	Satisfied November 2014
2013-14 Dial A Ride	24 th June 2013	Satisfied July 2014
2013-14 Allotments	24 th October 2013	Satisfied May 2014
2013-14 Mutual Exchanges	12 th June 2014	Satisfied February 2015
2013-14 Woodland Management Income	1 st May 2014	Satisfied January 2015

Summary of 2014/15 Audit Assurance Levels.

2014/15	Number of Audits	Assurance	Overall %
From 29 audits	0	Full	0%
	14	Significant	48%
	9	Moderate	31%
	2	Limited	7%
	0	No	0%
	0	To be confirmed	0%
	4	N/a	14%

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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 2014/15 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, "The Repairs & Maintenance audit was carried out in a professional manner" and, "Consideration was given to staffs current work load so that the audit process did not impact on their day to day duties".
- There is a high satisfaction rate with the audit product from the data received.

Of the 7 questionnaires received; 4 returned as 'excellent' and 3 as 'good'.

Overall Conclusions:

- 93% of the audits undertaken for 2014/15 which have received an assurance allocated returned an assurance of 'moderate' or above. This figure is inclusive of the critical friend audits i.e. 'N/A'.
- Clients are satisfied with the audit process and service from the data received.

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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 2015.

1. Audit Opinion

- 1.1 The internal audit of Redditch Borough Council's systems and operations during 2014/15 was conducted in accordance with the Internal Audit Annual plan which was approved by the Audit and Governance Committee on 24th April 2015.
- 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 2014/2015 was risk based (assessing audit and assurance factors, materiality risk, impact of failure, system risk, resource risk fraud risk, and external risk) using a predefined scoring system. It included:
- a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion' and other corporate systems for example governance and
 - a number of operational systems, for example, Land Charges, Planning Fees, Forge Mill, Reddicards and Data Security, Publication and Disposal were looked at to maintain and improve control systems and risk management processes or reinforce 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 three have been completed and six are nearing completion at draft report stage. Risk management was re-launched during 2012/13

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with further development and embedding required in order to move towards a trustworthy system which can be relied upon. 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 'limited' was the Golf Course. A clear management action has been formulated 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. Worcester Regulatory Services (WRS) remains a risk area in regard to reconciliations of cash and licensing fees. However, it has been agreed by the WRS Management Board and by the S151 officers of the participating Councils that options will be explored whereby all income is collected and reconciled by WRS to enable a more streamlined process in relation to cash received.

- 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 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 2014/15 effectively managed the principal risks identified in the audit plan and can be reasonably relied upon to ensure that the Council's corporate objectives have been met. However, there remains a significant risk which could jeopardise

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this in the future. With the austerity measures set to continue the need to reduce the overall Corporate budget, the transformation plan and 'unspecified' savings must continue to have and show greater clarity to ensure better transparency, expectation and accountability in order to ensure the Borough can continue to work towards a sound financial footing.

Andy Bromage
Worcestershire Internal Audit Shared Services Manager
June 2015