

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

7th July 2016

INTERNAL AUDIT - ANNUAL REPORT 2015/16

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:

- the Internal Audit Annual Report for 2015/16; and,
- the 2015/16 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 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 This report provides an overview of the utilisation of Internal Audit resources during 2015/16.

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- 3.4 Appendix 1 shows during 2015/2016 there were 399 productive audit days used against a budget of 400. This equates to a delivery of 99% of the audit plan.
- 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 2015/2016 audit plan with some minor revisions.
- 3.7 For 2015/16 the Annual Audit Plan was approved by the Audit, Governance and Standards Committee on 23rd April 2015. 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, CCTV, Leisure Consumables, Equipment and Goods and Resale, Stores Intervention, Account Reconciliations, Leisure Cash Receipting and Banking 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 2015/16 Annual Plan was to aid the effectiveness of the Internal Audit function and ensure that:
- Internal Audit assisted the Authority in meeting its objectives by reviewing the high risk areas, systems and processes,
 - The 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 2015/16 was a very demanding year for the Internal Audit team with the resignation of an Auditor in April followed by another in November, a Lead Auditor in September, and, two substantial investigations at Partner sites. WIASS has carefully managed its resource and worked with partners to deliver a full audit programme for Redditch Borough Council for 2015/16.

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 along with anecdotal evidence during the year shows a 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 2015/16 (and up to the drafting of this report) 19 final audit reports, 2 draft reports have been issued with 2 remaining review nearing completion, and, a substantial and lengthy investigation was also undertaken. Summaries of the 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 either been reported to the Audit, Governance and Standards Committee on an on going basis throughout the year or will be reported on finalisation.
- 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 2015/16 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 shared service management board, the Client Officer Group, meet on a regular basis and consider the performance of the Shared Service

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including progress against the Service Plan, and, actively promote continuous improvement.

- 3.18 Risk Management and Performance Management Framework featured as part of the original audit programme for the year but it was decided to defer Risk Management until Q1 of 2016/17 and postpone the Performance Management Framework audit.
- 3.19 Heads of Service provide regular Risk Management updates before the Audit Committee for consideration along with verbal updates from the Financial Services Manager to provide assurance.
- 3.20 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 2014/15 exercise as at the 19th May 2016 for Redditch Borough Council was circa £8039. This is a biennial exercise. The last significant data extract was during 2014/15 with a smaller data extract taking place during 2015/16. Work continues in regard to both data extracts.
- 3.21 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 2015/16

- 3.22 It is the responsibility of management to maintain the Authority's internal control framework and ensure that controls are being complied with.
- 3.23 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.
- 3.24 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

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confirming that those controls were operating effectively except where reported otherwise.

- 3.25 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.

Work of interest to the External Auditor

- 3.26 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

- 3.27 The work to deliver the Hereford and Worcester Fire and Rescue Service internal audit contract was predominantly completed during 2015/16 with only management responses awaited in order to finalise three audits. Threadneedle House in Redditch was delivered for the final time during 2015/16 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. There is no further requirement to audit the Threadneedle House accounts due to the sale of the building.

Anti-Fraud and Corruption Survey.

- 3.27 The anti fraud and corruption survey will be completed by Internal Audit and submitted to The European Institute for Combatting Corruption and Fraud (TEICCAF) at the end of August 2016 in respect of financial year 2015/16. The survey will examine several key anti fraud measures that exist within the Council and report on them.

Follow Up Work

- 3.28 An on going programme of 'follow up' in regard to the implementation of audit report recommendations continued during 2015/16. The

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outcome of the 'follow up' work is reported to the Committee on an exception basis as part of the progress reports. During 2015/16 there have been no exceptions to report in regard to follow up audit work. The 'follow up' audit work undertaken during 2015/16 has been reported in Appendix 2.

Customer / Equalities and Diversity Implications

3.29 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 2015/16
Appendix 2	Audits completed with Assurance 2015/16
Appendix 3	Head of Internal Audit Shared Service Audit Opinion and Commentary

6. BACKGROUND PAPERS

None

7. KEY

N/a

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APPENDIX 1

Delivery against Internal Audit Plan for 2015/16 1st April 2015 to 31st March 2016

Audit Area	2015/16 Days Used	2015/16 Plan Days
Core Financial Systems (Note 1)	86	94
Corporate Audits(Note 2)	69	60
Other Systems Audits(Note 3)	200	192
TOTAL	355	346
Audit Management Meetings	18	20
Corporate Meetings / Reading	6	9
Annual Plans and Reports	11	12
Audit Committee support	9	13
Other chargeable	0	0
TOTAL	44	54
GRAND TOTAL	399	400

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. Due to an accumulation of small budget savings against several of the audit areas a small underspend has been reported.

Note 2

'Corporate Audits' include budgets that are used throughout the year (e.g. follow up, consultancy) as well as those budgets which are used for specific events (e.g. investigations) on a draw down basis. Due to a substantial investigation requirement budgets were used in two areas resulting in a small overspend in both 'Corporate Audits' and 'Other Systems Audits'.

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Key Performance Indicators (KPIs) for 01st April 2015 to 31st March 2016.

The success or otherwise of the Internal Audit Shared Service can be measured against some of the following key performance indicators for 2015/16 (i.e. KPI 3 to 6). Other key performance indicators (i.e. 1 and 2) link to overall governance requirements of Redditch Borough Council.

	KPI	Trend requirement	2013/14 Year End Position	2014/15 Year End Position	2015/16 Year End Position	Frequency of Reporting
1	**No. of high priority recommendations	Downward	21	3	*7	Quarterly
2	No. of moderate or below assurances	Downward	12	9	7	Quarterly
3	No. of customers who assess the service as excellent	Upward	5 (8 returns; 5 excellent and 3 good)	4 (7 returns; 4 excellent and 3 good)	1 (2 returns; 1 excellent & 1 good)	Quarterly
4	No. of audits achieved during the year	Per target	Target = 29 Delivered = 29 Reports	Target = 24 (minimum) Delivered = 29 Reports	Target = 16 (minimum) Delivered = 23 (including 2 at draft stage and 2 nearing completion)	Quarterly
5	Percentage of plan delivered	100% of the agreed annual plan	N/A	N/A	99%	Quarterly
6	Service Productivity	Positive direction year on year (Annual target 74%)	N/A	N/A	81%	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 outturns this figure can fluctuate.

*The 'high' priority recommendations related to a Corporate requirement, Leisure Cash Receipting and Agency and Consultancy. A further three 'high' priority recommendations relate to System Administration and Website Security but these audits remain in draft therefore are to be confirmed.

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 2015/2016:

Audit Report / Title 2015 - 2016	Final Report Issued	Assurance Level
Members Allowances	2 nd October 2015	Significant
Treasury Management	4 th December 2015	Significant
Safeguarding	4 th February 2016	Significant
Benefits	21 st March 2016	Significant
Main Ledger	8 th June 2016	Significant
Creditors	8 th June 2016	Significant
Council Tax	10 th March 2016	Significant
NNDR	10 th March 2016	Significant
Stores Intervention	18 th January 2016	Critical Review
CCTV	31 st March 2016	Critical Review
Account Reconciliations	31 st March 2016	Critical Review
s106 Planning Obligations	8 th April 2016	Critical Review
Leisure Consumables, Equipment and Goods and Resale	4 th January 2016	Critical Review
Leisure Cash Receipting and Banking	9 th February 2016	Moderate
Corporate Governance – Annual Governance Statement	22 nd February 2016	Moderate
Debtors	29 th April 2016	Moderate
Housing Right To Buy	8 th June 2016	Moderate
Consultancy and Agency	13 th June 2016	Limited
Payroll	Working towards clearance	TBC
Environmental	At Clearance	Critical Review
Shared Service		
ICT: System Administration	10 th March 2016 (D)	Moderate
Website Security	3 rd February 2016 (D)	Moderate
Worcestershire Regulatory Services	6 th June 2016	Critical Review
Note: (D) denotes audit is currently in draft but unlikely the assurance level will change.		
Follow Up		
ICT 2013/14	April 2016	All implemented
Corporate Fraud 2013/14	March 2016	4 implemented, 2 in progress awaiting sign off of draft procedures.
Data Security, Publication and Disposal 2014/15	November 2015	All implemented
ICT 2014/15	April 2016	All implemented
Cash Receipting 2014/15	December 2015	1 implemented, 1 remains to be actioned re. PCIDSS certification.

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Reddicard Concessions 2014/15	January 2016	1 implemented, 1 remains in progress re. independent checks of fees and charges up loaded to the system.
DFG's & HRA Grants 2014/15	March 2016	1 remains in progress re. cleansing of the DFG files. To be completed by September 2016.
Rent Arrears 2014/15	April 2016	1 remains in progress re. updating of procedural guidance but restructuring has to take place first. To be completed by December 2016
Procurement 2014/15	April 2016	1 implemented, 2 remain in progress re. updating of the procurement strategy, guidance documents and training. To be completed by October 2016.
Forge Mill 2014/15	April 2016	6 implemented, 1 remains in progress re. inventory. To be completed by September 2016
Corporate Governance 2014/15	April 2016	1 remains in progress re. Members Annual Report. To be completed by August 2016.
All core financials		

Summary of 2015/16 Audit Assurance Levels.

2015/16	Number of Audits	Assurance	Overall % (Rounded)
From 23 audits (including those at draft stage)	0	Full	0%
	8	Significant	35%
	6	Moderate	26%
	1	Limited	4%
	0	No	0%
	1	To be confirmed	4%
	7	Critical Review	31%

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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 2015/16 financial year indicated that of those who responded:

- The Managers were happy with the process and format of the reviews. This continues to be further developed.
- Two Managers commented, “The recommendations in the review will support me trying to improve and change the service, especially in discussions with councillors” and, “High quality information and supportive in all aspects”.
- Anecdotal evidence also indicates there is a high satisfaction rate with the audit product.

Of the questionnaires issued; 1 returned as ‘excellent’ and 1 as ‘good’.

Overall Conclusions:

- 92% of the audits undertaken for 2015/16 which have received an assurance allocated returned an assurance of ‘moderate’ or above. This figure is inclusive of the critical review audits due to their nature but not the ‘TBC’ review.
- 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 2016.

1. Audit Opinion

- 1.1 The internal audit of Redditch Borough Council's systems and operations during 2015/16 was conducted in accordance with the Internal Audit Annual plan which was approved by the Audit, Governance and Standards Committee on 23rd 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 2013 as amended 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 2015/2016 was risk based (assessing audit and assurance factors, materiality risk, impact of failure, system risk, resource risk fraud risk, and external risk) using a predefined scoring system. 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, Right to Buy, Stores Intervention, Leisure Consumables, Equipment and Goods and Resale 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 and any revision thereto 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 three reviews that have been undertaken, nineteen have been finalised, two are at draft report stage and two are nearing completion. Risk management requires further

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development and embedding 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 Consultancy and Agency procurement. A clear management action has been formulated to address the issues identified in order to mitigate any risk. Where audits are to be finalised a comprehensive management action plan will be required and agreed by the s151 Officer. Furthermore during the year there was a significant investigation undertaken in regards to a third party and their ability to deliver a service based on an agreed contract. Although Internal Audit has not been able to finalise the Payroll audit for 2015/16 at the time this opinion was written it is evident that due to the nature of Payroll the business continuity may be challenged due to the lack of consistency in regard to the Payroll Managers position. However, the management team have agreed to recruit to the post with immediate effect and an interim manager has been sourced to ensure the payroll service can be delivered effectively.

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

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- 1.8 The majority of the completed audits have been allocated an audit assurance of either 'moderate' or above meaning that there is generally a sound system of internal control in place, no significant control issues have been encountered and no material losses have been identified during a time of significant transformation and change.
- 1.9 WIASS can conclude that no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance based on the audits performed in accordance with the approved plan and the scoping therein. Based on the audits performed in accordance with the approved plan, the Head of Internal Audit Shared Service has concluded that the internal control arrangements during 2015/16 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 this in the future. With the austerity measures set to continue the need to reduce the overall Corporate budget and work towards a balanced budget beyond 2016/17 will be critical to create 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 2016