

# TEWKESBURY BOROUGH COUNCIL

<b>Report to:</b>	Audit Committee
<b>Date of Meeting:</b>	25 June 2014
<b>Subject:</b>	Internal Audit Annual Report 2013/14
<b>Report of:</b>	Graeme Simpson, Policy and Performance Group Manager
<b>Corporate Lead:</b>	Mike Dawson, Chief Executive
<b>Lead Member:</b>	Councillor Mrs J M Perez
<b>Number of Appendices:</b>	None

## **Executive Summary:**

To provide Members with a summary of internal audit work undertaken during 2013/14 and to provide an opinion on the overall effectiveness of the organisations' control environment.

## **Recommendation:**

**To CONSIDER the Internal Audit Annual Report 2013/14 and the assurance from the work undertaken during the year that overall a satisfactory level of control exists within the systems audited during the year.**

## **Reasons for Recommendation:**

The Public Sector Internal Audit Standards (PSIAS) require that the Chief Audit Executive (CAE) i.e. Policy and Performance Group Manager must report functionally to the board i.e. Audit Committee.

One example of functional reporting is the internal audit annual report. PSIAS also requires that the CAE delivers an annual audit opinion and report that can be used by the organisation to inform its governance statement.

## **Resource Implications:**

None.

## **Legal Implications:**

None.

## **Risk Management Implications:**

If the CAE does not report functionally to the Board then this does not comply with PSIAS.

If the Council does not have in place a framework of sound governance, risk management and control then there is a risk it will not achieve its objectives.

**Performance Management Follow-up:**

All recommendations made from individual audits are followed up during the year to ascertain if they have been implemented or not. Any audit where a limited opinion has been concluded requires the relevant manager to report back to the committee to give assurance that issues identified have been resolved.

**Environmental Implications:**

None.

**1.0 INTRODUCTION/BACKGROUND**

- 1.1** The Public Sector Internal Audit Standards, effective from 1 April 2013 requires that the Chief Audit Executive (CAE) delivers an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. For the purposes of the Tewkesbury Borough Council, the CAE is defined as the Policy and Performance Group Manager. This is defined in the Internal Audit Charter which was approved at Audit Committee on 20 March 2013.
- 1.2** Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.3** To direct and effectively deploy the audit resource, a risk based annual audit plan is produced and this plan is approved by Audit Committee. The 2013/14 plan was approved by Audit Committee on 20 March 2013. It should be noted that internal audit is only part of the Council's assurance framework and therefore the annual audit opinion is only reflective and restricted to the systems audited during the year.
- 1.4** Regulation 4 of the Accounts and Audit Regulations 2011 requires that:
- “the relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk”
- “the relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control .... Following the review, the body must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control”
- Internal audit, along with other assurance processes of the Council, have a responsibility to provide assurance from the work they undertake during the year in respect of the control environment operating within the council to feed into this review.

**2.0 SUMMARY OF 2013/14 AUDIT WORK**

**2.1** The annual audit plan is pulled together using a risk based approach and was informed by the following activities:

- Governance issues and work relevant to the production of the annual governance statement.
- Work on fundamental financial systems.
- Work of a service based nature.
- Corporate improvement work.
- Follow-up work.
- Consultancy and advice.

This approach results in a comprehensive range of audits that are undertaken during the course of the year to support the overall opinion on the control environment.

**2.2** In compliance with PSIAS, regular monitoring reports of internal audit activity are presented at Audit Committee. These are presented on a quarterly basis. Audit work undertaken in the year on governance, key financial systems and service related audits consisted of the following:

Data Quality	Debtors
Procurement	Cash & Bank
Health & Safety – tree inspections	ICT
National Fraud Initiative	Human Resources
Main Accounting System	Car Parks
Payroll	Recycling
Creditors	Land Charges
Council Tax	Flood Alleviation Grants
Business Rates	Office Refurbishment
Housing Benefits	Planning Fees
Licensing	Business Grant Scheme

There is one outstanding audit from the 2013/14 audit plan and this relates to Risk Management. A new corporate risk register is in the process of being pulled together and will form part of the 2014/15 Quarter 1 Performance Management report. The implementation of the register will support the Council’s existing risk management arrangements which include: the Risk Management Strategy, significant project risk registers and the monitoring of risk through standard agenda items at Corporate Management Team and Departmental Management Team meetings.

**2.3** In addition to the above, the internal audit team also undertook a variety of corporate improvement work initiatives. The audit plan has an allocation of days for this type of work. The Senior Management Team is aware of this allocation and can request internal audit to help assist areas of work that need to be moved forward. The following was undertaken:

- Procurement – spend analysis
- Customer Services – customer service standards
- Selling to the Council Guide
- Update of Business Continuity Plan
- Tree management projection plan

**2.4** The team is also represented on key corporate groups such as the Corporate Governance Group; Equalities Steering Group; Business Continuity Group; and Keep Healthy, Stay Safe Group and therefore has the remit to provide advice on key governance frameworks and keep abreast of emerging issues. The team is also contacted on a regular basis to provide ad hoc advice on activities such as compliance with the Council’s contract procedure and financial procedure rules and proposed changes to systems and processes.

**3.0 OPINION ON THE OVERALL ADEQUACY OF THE CONTROL ENVIRONMENT**

**3.1** The opinion is based upon and limited to the activities audited during the year. The opinion does not imply that internal audit has reviewed all risks and assurances relating to the Council but is based upon the range of individual opinions arising from the audit assignments completed during the year. As well as the internal audit opinion, the Council relies upon other aspects of its assurance framework to help inform the completeness of the Annual Governance Statement. For example, the performance management framework; risk management framework; standards and codes of conduct; and external audit reports help inform the adequacy of the Council’s governance arrangements.

**3.2** When reporting, internal audit provides a ‘split’ opinion. This means individual opinions are given for different parts of a system being audited. This approach enables internal audit to identify to management, specific areas of control that are operating/not operating as intended. A summary of the number of opinions given during the year can be found in the table below:

<b>Opinion</b>	<b>Number</b>
Good	38
Satisfactory	25
Limited	2 (this includes the proposed action to produce a corporate risk register)
Unsatisfactory	0
Total	65

**3.3** Where a limited opinion has been given these have been reported to the Committee in some detail through the quarterly monitoring reports. Only one limited opinion has been given during the year and this related to an audit of the flood alleviation grants (lack of formal agreements between partners). Recommendations have been made to improve control and implementation of these will be subject to a follow-up audit during 2014/15.

**3.4** Follow-up work undertaken during 2013/14 also confirms a high percentage of implemented recommendations. As reported to Audit Committee in March 2014, there will be future reporting of all recommendations.

**3.5** As defined in the Internal Audit Charter, the internal audit team has remained organisationally independent during 2013/14. Internal audit sits within a larger Policy and Performance Team who are located in the Chief Executive's Unit. This enables free and unfettered access to the Chief Executive. If the need was to arise, it is also stipulated within Charter that the Policy and Performance Group Manager will also have access to the Chairman of the Audit Committee.

#### **4.0 FRAUD/THEFT/CORRUPTION**

**4.1** One fraud was brought to the attention of internal audit during the year. As confirmed in the final monitoring report this related to Electoral Registration – Canvassing. The Monitoring Officer has confirmed that no allegations have been reported through the Council's Whistleblowing Procedure.

#### **5.0 SUMMARY OF AUDIT PERFORMANCE**

**5.1** The performance monitoring information for achievement against the plan, is based on the number of completed audits vs the number of planned audits. The outturn for the twelve month period is 92%, this is above the 'industry' benchmark of 90%. In addition to this, internal audit has received a 'good' level of client satisfaction, a client survey is sent at the end of each audit. Further information on the effectiveness of internal audit is detailed in the report 'Review of effectiveness of Internal Audit' which is also an agenda item for the meeting. An assessment against the PSIAS has been undertaken with the conclusion that internal audit is broadly compliant and has quality assurance programme in place. An action plan to strengthen arrangements has been produced but there are no material areas of concern.

#### **6.1 MOVING FORWARD TO 14/15**

**6.1** The team has now started work on the 2014/15 audit plan which includes a number of key areas where there is significant change to current systems, for example:

- New leisure centre
- Garden waste database
- Recycling
- Payroll self-service
- Behaviours framework
- Individual Electoral Registration

**6.2** Any audit activity undertaken on health and safety will now be formally reported to Audit Committee. The Council's Health and Safety Officer will be seconded to internal audit and will follow the internal audit methodology when undertaking this work. To provide the Committee with greater awareness of governance issues, future agenda items will include ICT governance and HB Fraud (levels of fraud and future of the fraud service).

**6.3** In terms of corporate improvement days, activities already identified are the provision of support to the Revenues and Benefits Improvement Programme; facilitating the implementation of contract registers; and the health and safety work mentioned above.

**6.4** CIPFA has recently issued an updated document on Audit Committees which includes a self-assessment of good practice and evaluating the effectiveness of the Committee. This will be brought to the Committee during 2014/15 for consideration. A training session on the role of internal audit has also been included within the improvement action plan.

## **7.0 CONCLUSION**

**7.1** Based upon the work undertaken by internal audit during the year, then internal audit can provide reasonable assurance that there is a good level of control in relation to the council's governance arrangements and systems of internal control. In relation to risk, there is a risk management framework in place but needs to be enhanced through the delivery of the corporate risk register. The internal audit opinion is one of the sources of assurance that is used to support the Council's Annual Governance Statement.

## **8.0 OTHER OPTIONS CONSIDERED**

**8.1** None.

## **9.0 CONSULTATION**

**9.1** One of the key performance indicators relates to the use of client survey.

## **10.0 RELEVANT COUNCIL POLICIES/STRATEGIES**

**10.1** Internal Audit Charter and Internal Audit Annual Plan.

## **11.0 RELEVANT GOVERNMENT POLICIES**

**11.1** None.

## **12.0 RESOURCE IMPLICATIONS (Human/Property)**

**12.1** None.

## **13.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)**

**13.1** None.

## **14.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)**

**14.1** None

## **15.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS**

**15.1** None.

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**Background Papers:** None

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**Appendices:** None