

<b>Title of Report:</b>	<b>Internal Audit Annual Report 2014-15</b>
<b>Report to be considered by:</b>	Governance and Ethics Committee
<b>Date of Meeting:</b>	24 <sup>th</sup> August 2015
<b>Forward Plan Ref:</b>	GE3001

**Purpose of Report:** To provide an opinion on the effectiveness of the Council's internal control framework

**Recommended Action:** To note the report

**Reason for decision to be taken:** To support the Annual Governance Statement

**Other options considered:** None

**Key background documentation:** Internal Audit reports

**Published Works:** n/a

The proposals will also help achieve the following Council Strategy aim:

**CSA5 – Become an even more effective Council**

The proposals contained in this report will help to achieve the above Council Strategy aims, priorities and core services by:  
Ensuring the internal control framework in fit for purpose

#### Portfolio Member Details

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<b>Date Portfolio Member agreed report:</b>	23 July 2015

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## Implications

<b>Policy:</b>	none
<b>Financial:</b>	none
<b>Personnel:</b>	none
<b>Legal/Procurement:</b>	none
<b>Property:</b>	none
<b>Risk Management:</b>	Internal Audit identifies weaknesses in systems that pose risks to the Council's operation. This allows managers to take action to mitigate those risks.

Is this item relevant to equality?	Please tick relevant boxes	Yes	No
Does the policy affect service users, employees or the wider community and:			
• Is it likely to affect people with particular protected characteristics differently?		<input type="checkbox"/>	<input checked="" type="checkbox"/>
• Is it a major policy, significantly affecting how functions are delivered?		<input type="checkbox"/>	<input checked="" type="checkbox"/>
• Will the policy have a significant impact on how other organisations operate in terms of equality?		<input type="checkbox"/>	<input checked="" type="checkbox"/>
• Does the policy relate to functions that engagement has identified as being important to people with particular protected characteristics?		<input type="checkbox"/>	<input checked="" type="checkbox"/>
• Does the policy relate to an area with known inequalities?		<input type="checkbox"/>	<input checked="" type="checkbox"/>
<b>Outcome</b> (Where one or more 'Yes' boxes are ticked, the item is relevant to equality)			
Relevant to equality - Complete an EIA available at <a href="http://intranet/EqIA">http://intranet/EqIA</a>			<input type="checkbox"/>
Not relevant to equality			<input checked="" type="checkbox"/>

Is this item subject to call-in?	Yes: <input checked="" type="checkbox"/>	No: <input type="checkbox"/>
If not subject to call-in please put a cross in the appropriate box:		
The item is due to be referred to Council for final approval		<input type="checkbox"/>
Delays in implementation could have serious financial implications for the Council		<input type="checkbox"/>
Delays in implementation could compromise the Council's position		<input type="checkbox"/>
Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months		<input type="checkbox"/>
Item is Urgent Key Decision		<input type="checkbox"/>
Report is to note only		<input type="checkbox"/>

# Executive Summary

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## 1. Introduction

- 1.1 This report sets out the Annual Report on the work of Internal Audit as required by the Public Sector Internal Audit Standards.

## 2. Proposals

- 2.1 This report is intended to provide evidence to support the Council's Annual Governance Statement by setting out the results of the work Internal Audit has done over the last year.
- 2.2 This report builds on the interim report made to Governance and Audit earlier in the year, but does not repeat the detail of that report.
- 2.3 The report highlights the fact that four audits were rated as weak during the second half of the year, but that where weaknesses were previously identified then management action has been taken to remedy them.

## 3. Equalities Impact Assessment Outcomes

- 3.1 This item is not relevant to equality.

## 4. Conclusion

- 4.1 The Council's internal control framework is robust.

# Executive Report

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## 1. Introduction

- 1.1 The Public Sector Internal Audit Standards require Internal Audit to make a formal report annually to the Council. The report should:
- (1) include an opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment.
  - (2) disclose any qualifications to that opinion, together with the reasons for the qualification.
  - (3) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies.
  - (4) draw attention to any issues Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement.
  - (5) compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria.
- 1.2 In addition to the formal annual report, Internal Audit provide an interim report to the Governance and Audit Committee in the course of the year. The interim report addresses emerging issues in respect of the whole range of areas to be covered in the formal annual report. An interim report was made to the Governance and Audit Committee at the February meeting of the Committee.
- 1.3 This annual report meets the requirements of the Public Sector Internal Audit Standards.

## 2. Opinion on the "Internal Control Framework"

- 2.1 No fundamental weaknesses were identified in Council's internal control framework through the work carried out by Internal Audit. Where audit work identified weaknesses then management action has been taken to resolve issues identified.
- 2.2 Overall the internal control framework remains robust.

## 3. Issues identified in the course of the year

- 3.1 The following summarises the results of the audit work where an opinion was given, and this table demonstrates that, in particular, the main financial systems of the Council are robust. In addition it should be noted that the identification of weaknesses is an inevitable part of the auditing process. What is then key is that Management responds positively by implementing agreed recommendations.

Type	Very weak	Weak	Satisfactory	Well Controlled	Very Well Controlled
Key Financial System				3	
Other systems		4	1	2	

3.2 The following paragraphs highlight the issues raised in respect of the weak opinion audits noted above.

- (1) Corporate - Anti Fraud - Whilst the exposure of the Council to the risk of fraud and corruption is considered to be low, we found that several key policies/strategies were out-of-date or otherwise in need of review. We consider that there needs to be greater liaison/co-ordination between key officers who are involved in investigating fraud and corruption within and on behalf of the Council. There is also a need to publicise the existence of fraud and corruption across the Council to raise awareness with staff of fraud and corruption and how it can take place. This could be undertaken by publicising the existence of the Council's relevant policies and outcomes of cases that have been investigated (this could be at a local level and/or nationally) which would also act as a deterrent. Awareness would also be raised by establishing specific training covering fraud for those services/teams where there is a more inherent risk of fraud occurring. We also consider that the identification of the risk of fraud through the Council's risk management process could be strengthened.

Heads of Finance Comments - The audit opinion was "weak" because a number of the Council's policies and procedures in relation to fraud and corruption need refreshing and bringing into line with the latest best practice advice from cipfa. However, the advice from cipfa is very much "one size fits all" whereas we have always applied a risk based approach to anti fraud work, and in my view the risk of fraud and corruption at WBC is very low. WBC is a very well managed organisation with very strong governance arrangements, as noted in the recent Peer Review by the Local Government Association, and it would be a mistake to invest heavily in something where the risk is minimal. For example over the 12 or so years that we have had a whistleblowing policy in place we have had only two cases brought to our attention and both were dealt with robustly.

- (2) Finance - Commercial Rents - There are procedure notes in place covering the management of commercial property, however not all key processes have been included for example the use of the Uniform database/the Asset Team's monitoring spreadsheets. Commercial properties are recorded on both Uniform as well as on the Asset Team's spreadsheets, there is no reconciliation to ensure that the data on both sets of records agrees, or that the number of properties record agrees with the number of deeds held by the Council. The Uniform database is not fully utilised and management reports

are not produced to assist in the management of the day to day processes covering commercial properties eg monitoring when expiry dates of lease/tenancy agreements are due. Where agreed, tenants/ lease holders can arrange their own property insurance, however during our review we found that no checks are made to ensure that they are complying with this arrangement and have the relevant insurance cover. We found that the procedures include the requirement that properties should be checked to ensure that tenants/ lease holders are complying with their legal agreement (i.e. kept in good repair). However, we found that there are no checks carried out on occupied properties and inspections of empty properties do not always meet the requirements of the Council's property insurers. We were informed that for some of the larger unoccupied properties a request is made through Property Services for an external contractor to carry out daily inspections. For other properties the arrangements for inspection are more of an adhoc/informal arrangement i.e. smaller unoccupied properties may be visited by one of the Asset Team, for unoccupied units at the Kennet Enterprise Centre, the Assets Team has an arrangement with the tenants of neighbouring units to raise any concerns. When discussing the draft report we were informed that the team consider that the cost of carrying out regular physical checks on occupied properties considerably outweighs the risk associated with not doing so and the benefit of doing so would be minimal.

The Head of Finance comments – The Asset Team keep their own detailed paper and electronic records on all properties owned or leased by the Council including the expiry dates of lease/tenancy agreements which are relied upon for day to day management of properties. There is currently a vacancy within the Asset team to which we have not yet been able to recruit so there is not currently sufficient resource in the Asset Team to reconcile the two sets of records and ensure that Uniform is up to date. We will be able to explore the best way to resolve the possible discrepancies between the two sets of records when the vacant post has been filled. On the issue of insurance and property checks, I do not consider this to be a significant risk to the Council as the majority of the Council's commercial tenants have ground leases and are therefore liable for the upkeep and insurance of their own buildings. However, we will also be in a better position to address this issue when the vacancy in the Asset Team has been filled.

- (3) Corporate - Archive Service - We found the controls in place relating to the day to day operations of the archiving function by the Postal Team to be satisfactory. However, we found that the Council does not have effective processes in place for ensuring that records in storage are regularly reviewed to minimise the costs incurred. We also found that the Council does not have a complete and detailed central record of all items that have been sent into storage in which to check the storage invoice details against.

We consider that some of the weaknesses we identified are partly due to the responsibility for archiving operations being transferred between services over the years, as this seems to have resulted in a lack of continuity in the detailed knowledge of what arrangements were actually set up/agreed at the time. We also noted that some of the older records sent to storage do not have a destruction date, and therefore these records could be retained in perpetuity unnecessarily, which would result in unnecessary expenditure being incurred. Services are responsible for managing and reviewing their

own records held in storage, they are recharged on an actual cost basis to encourage them to be pro-active with this. However, we do not consider this piecemeal / uncoordinated approach is effective, as our review found a considerable number of boxes in storage beyond their destruction date.

Head of ICT comments – Some of the continuity issues described were exacerbated by a number of staff changes in the Postal Team. The team is now stable and re-staffed and the Information Security Manager (who manages this team) reviewed the archiving process to help implement improvement identified by the audit.

- (4) Care Commissioning, Housing and Safeguarding - Social Fund Reform (Communities Grant) - The key areas of weakness we identified relate to the fact that Communities Grant transactions / expenditure totals are not recorded in the Council's general ledger, and therefore not included in the budget monitoring process. We appreciate that the accounting arrangement proposals had been consulted upon before being set up and it had been agreed at the time that the proposed arrangements were considered suitable. A separate bank account is used to hold grant funds/draw payment, we noted that this bank account has not been reconciled since the Council became responsible for the grant in April 2013. The Council has defined its policy for using the grant which includes the criteria for qualifying for grant payments together with high level 'internal procedures' covering the administration of the Communities Grant. The processes for recording/supporting each grant payment made were found to be comprehensive, however these processes have not been documented. A spreadsheet has been set up to record applications and the value of payments, we noted that it does not include a trail to the actual payments made. Also there were errors on the spreadsheet for 2013/14 which has resulted in it not reflecting the correct opening/closing balance and we could not verify the opening balance for the current year to the previous year.

The Head of Care Commissioning, Housing and Safeguarding comments - The bank account has not been reconciled in the way audit suggested as there is a resource issue in doing this. However, all payments that leave the bank account are checked and cannot leave the account without authorisation from a second officer, therefore there is a full audit trail with spot checks on the account. The processes are now being written up and the formatting issue has been resolved on the spreadsheet. Additional columns have also been added to the spreadsheet to provide an audit trail of when payments are made and the relevant invoice information. I believe that apart from the bank reconciliation not being done in the way audit have asked for it to be done, (although this is being done effectively), we have done everything else.

- 3.3 The following summarises the results of follow up audit work. A follow up review is carried out, usually six months after the audit has been finalised. The purpose of this review is to assess the extent to which agreed recommendations have been implemented by management. Follow up audits measure the progress with implementing agreed recommendations and are scored as either "satisfactory" or "unsatisfactory".

3.4 This table demonstrates that the Council has responded effectively where weaknesses were identified. In all cases the follow up audit found satisfactory progress had been made with implementing agreed action plans. Overall this represents very good performance.

Type	Unsatisfactory	Satisfactory
Key Financial System		1
Other systems		7

3.5 What the above demonstrates is that the Council has responded quickly and effectively to the items of concern identified. This provides further evidence of the robust nature of the system of internal control within the Council.

#### 4. Performance of Internal Audit

4.1 Delivery of the audit plan was on target in the current year, 83% against a target of 80%.

#### 5. Summary of Audit Opinions

5.1 Appendix C outlines the number and range of audit opinions, including results of follow up reviews over the period 2010 - 2015, broken down between Fundamental / Key Financial Systems and other systems.

5.2 The information does not show any significant trends however the following points are worth noting:

- (1) None of the fundamental systems have scored as weak or very weak, indeed the vast majority of these audits are in the well or very well controlled category. Also all of the follow ups to these audits have been given a satisfactory opinion. This is not surprising, given that the systems are audited every year, but it is reassuring, given that these systems handle virtually all of the Council's financial transactions.
- (2) The incidence of unsatisfactory follow ups has dropped. This indicates that managers are responding positively to audit recommendations.
- (3) The last year 14-15 has seen a "spike" in the number of weak opinions. This may be a one off, or may indicate that the savings programme that the Council has implemented over the last five years is now starting to impact as controls are removed to deliver savings.

5.3 Corporate Board have reviewed the 5 weak audits, subsequent to receiving this report. In addition a separate report on the Archive service was discussed at Corporate Board earlier this year and a report on Anti Fraud work is presently being prepared for Corporate Board.

## **Appendices**

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Appendix A - Current work underway

Appendix B - Completed work

Appendix C - Summary of Audit Opinions over the last 5 years

## **Consultees**

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**Local Stakeholders:** N/A

**Officers Consulted:** Corporate Board

**Trade Union:** N/A