

Bath & North East Somerset Council			
MEETING:	Corporate Audit Committee		
MEETING DATE:	26th March 2015	AGENDA ITEM NUMBER	
TITLE:	Internal Audit Annual Report – 2014/15		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – Internal Audit Dashboard Quarter 4 2014/15			
Appendix 2 – Internal Audit Outturn 2014/15			

## **1 THE ISSUE**

1.1 This is an annual report produced to detail the work undertaken by Internal Audit during 2014/15.

## **2 RECOMMENDATIONS**

2.1 The Corporate Audit Committee is asked to:

a) Note the summary of audit work completed during 2014/15 and performance of the Internal Audit Team (Appendices 1 & 2).

## **3 FINANCIAL IMPLICATIONS**

3.1 There are no direct financial implications relevant to this report.

## **4 THE REPORT**

### **4.1 Internal Audit Work Carried out in 2014/15 (Appendix 1 & 2)**

#### **4.2 Plan Performance**

4.3 The Committee received an update report on the first six months Internal Audit performance at its December meeting. At that time it was reported that during the first half of the financial year 39% of the plan had been completed or was work in progress.

4.4 It is forecast that as at the 31<sup>st</sup> March 2015, this figure will have increased to 81%. Key reasons for not reaching a higher level are as follows –

- Resources – The Audit Plan included 200 days to be sourced from the South West Audit Partnership (SWAP). It is forecast that by end of March, 8 audits totalling 128 days will have been completed by SWAP. A 9th audit will be completed by the end of April. In addition, a member of the audit team of retirement age has decided to reduce their hours. This has resulted in the loss of another 35 productive days. The loss of 107 available productive days equates to 8%.

- Level of unplanned work – Although the amount of time investigating financial irregularities is much reduced on previous years the Audit Team has had to allocate resources to this and other types of unplanned work. We have had to allocate additional time to School Financial Value Standards and had three grant claims which required 'independent' review prior to Chief Executive 'sign-off';

- As previously reported, a number of audit reviews from 2013/14 which were not recorded in the 2014/15 Audit Plan had to have time allocated from the 2014/15 available audit days to complete the audit review work.

- Exceeding Audit Days allocated – The Audit Dashboard (Appendix 1) records that 82% of audits had been completed within the number of days assigned (i.e. planned audit days). Therefore 18% of audits completed (Final Report stage) had exceeded the planned days allocated. The vast majority of this figure was based on the scope of the audit having to be reviewed and adjusted during the audit process.

#### 4.5 Wider Performance

4.6 Appendix 1 provides a 'dashboard' view of adopted high level performance indicators for quarter 4. For comparison reasons the results of the last two years are recorded below:

High Level Performance Indicator	As at 31 <sup>st</sup> March 2014	As at 31 <sup>st</sup> March 2015 (Forecast)
% of Audits completed within time allocated	87%	82%
% of Services which rate Internal Audit as Excellent / Good	100%	96%
% of recommendations agreed (based on management response recorded in Final version of Audit Reports issued).	99%	98%
% of high / critical risk recommendations implemented (based on findings of 'Follow-Up' Reviews completed and reported to management).	83%	69%*
% of days sickness as percentage of total days	3%	1.2%

\*- It should be noted that the shortfall of 31% only relates to 3 recommendations (x2 Council Tax Enforcement; and x1 Heritage Collections). Please note the recommendations have now been implemented in full (Council Tax – Bailiff Agreements) or partial implementation with on-going actions being taken (Heritage – valid loan agreements).

#### 4.7 Internal Control Framework Analysis

In addition to the above an analysis of the results of audit work - i.e. the state of the internal control environment - was as follows:

- 92% of audit reviews assessed the control framework at Assurance Level 3 to 5 ('Satisfactory', 'Good' or 'Excellent');
- 8% of audit reviews were assessed at Assurance Level 2 ('Weak'). This represented four audit reviews and management have agreed to implement all the audit recommendations.

4.8 Appendix 2 records those reviews finalised, drafted or 'Work-In-Progress' at the beginning of March 2015. This records that 50 Audit Reports have been 'finalised' in the 2014/15 Financial Year, 7 were in 'draft' form and another 20 audits were 'Work-In-Progress'.

4.9 As stated above 4 'finalised' audits were assessed at Level 2 'Weak Control Framework'. Three were reported to the Committee in December 2014. These were:

- 1) IT Software Licensing - This audit considered the arrangements to acquire, manage and maintain software assets and that ensure that software was appropriate and legal to use.
- 2) Parks & Green Spaces – The audit reviewed the parks operations including the management of trees; income from internal sales and external trading; safeguarding of assets and consumables; staffing costs; and management of allotment waiting lists.
- 3) Safer Recruitment (Disclosure & Barring Service) – The work of the Criminal Records Bureau and the Independent Safeguarding Authority merged into a single, new Non Departmental Public Body called the Disclosure & Barring Service (DBS) from December 2012. Based on this there have been many changes to the disclosure process including a new definition of regulated activity. A significant change is that the employer relies on the individual to present their disclosure certificate.
- 4) IT Business Continuity & Disaster Recovery - Management have responded to the audit report agreed to implement the four 'High' risk audit recommendations and a 'Follow-Up' review will be carried out in the early part of 2015/16.

4.10 At the December Committee meeting, comments were made about the Assurance Level ratings in comparison to the number of audit recommendations made / agreed to be implemented. The analysis of recommendations in Appendix 2 is recorded to provide Members with assurance that recommendations being made are being agreed by management for implementation. The number of audit recommendations made won't necessarily align to the Assurance Level allocated, i.e. a large number of recommendations does not necessarily mean that overall the control framework is poor/weak. It is important that the Audit Assurance Level takes into account the whole system of internal control. By recommending the inclusion/deletion/amendment of internal controls/checks the framework of internal control can be enhanced.

4.11 Each Audit Report goes through a robust Quality Control process to ensure the Assurance Level matches the framework of controls in place to manage the key risks of the activity under review.

## **4.12 Resources & Partnership Development**

4.13 As reported to each Committee meeting over the last year, the service has been trialing joint working (since September 2013) with North Somerset Council. Both Councils have committed to work more closely and finally in December both Executive's approved a proposal to integrate both teams into a formal arrangement from April 2015 with Bath & North East Somerset being the host authority employing all staff.

4.14 As previously advised in December, a number of improvements have been made during the year through joint working in delivering higher quality and savings in time, cost and efficiency. These have included –

- Reductions in unproductive time, additional cost reductions and increased Income generation opportunities;
- Use of a single audit management system for both partners and single audit methodology to allow 'real' sharing to occur;
- Development of single templates for key documents, i.e. Audit Brief, Audit Report;
- Skills Analysis and integrated training plan.

4.15 Work is now underway to finalise the contract and arrange for the TUPE of staff from North Somerset Council to B&NES by the 31st March 2015. Discussions also continue with other councils who are interested in our arrangement.

4.16 In addition, we plan to extend our arrangement with the South West Audit Partnership to give the new partnership full flexibility allowing us to source specialist skills at a reasonable cost, i.e. IT Auditors, where it is difficult to recruit and retain.

4.17 A separate Partnership Board will oversee the operation of the new arrangements but the role of Audit Committee's remain unchanged and the same regular reports on the work of Internal Audit will continue to be made as now.

#### **4.18 Formal Opinion on Internal Control Framework –**

##### **Comments of the Head of Partnership (Chief Internal Auditor)**

4.19 Despite a small number of financial irregularity investigations it is pleasing to note that within the year there were no fundamental system failures and it is my opinion that at this current time the Council's Internal Control framework and systems to manage risk are satisfactory.

- Reasonable assurance can be provided over the Council's systems of internal control, helping to ensure corporate priorities can be achieved;
- Agreed policies, Financial Regulations and Contract Standing Orders are broadly being complied with;
- Managers throughout the Council are aware of the importance of maintaining adequate and effective governance arrangements;
- Appropriate arrangements are operated to deter and detect fraud and investigations did not identify any systemic failures;
- There were no fundamental system failures or control breakdowns to business critical functions.

4.20 Last year I reported that it was clear that with increased pressure on budgets, choices on the degree of internal control were having to be made and the level of risk being accepted by the organisation is imperceptibly rising and this situation continues. This in itself is not a cause of undue concern at this time as the risk appetite level of Local Authorities is still broadly low to medium. Therefore applying a degree of flexibility to what is an acceptable level of risk is a sensible course of action to ensure the organisation's priorities continue to be delivered.

4.21 This does however place increased pressure on the Internal Audit function to adapt to this changing framework and also provide the right balance of scrutiny and support to management. Ensuring value from the function as well as providing a strong independent voice is a critical check in establishing successful organisational governance. This becomes important as structures change and therefore the update I have provided above regarding the progress of the function towards an independent partnership by April 2015 is both timely and welcomed.

4.22 It is my view that this is a necessary step to ensure professional standards can be met, the right level of independence can be adopted and ultimately that the committee can rely on the advice and outcomes from audit work.

4.23 Finally the support of the Audit Committee remains vital to effective corporate governance and I would like to thank all the members of the committee for their input and guidance over the last 12 months.

## **5 RISK MANAGEMENT**

- 5.1 Commentary and opinion in relation to past performance has used the outcome of audit and other inspection work to inform the risk assessment and there is nothing significant to report.

## **6 EQUALITIES**

- 6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report.

## **7 CONSULTATION**

- 7.1 The report was distributed to the S151 Officer for consultation.

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<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	