

# Gloucester City Council

Meeting:	Audit & Governance Committee	Date:	01 July 2015
Subject:	Audit, Risk & Assurance Manager's Annual Report 2014/15		
Report Of:	Audit, Risk & Assurance Manager		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Terry Rodway, Audit, Risk & Assurance Manager		
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Appendices:	1. List of audits that resulted in a 'Limited' level of assurance		

## FOR GENERAL RELEASE

### 1.0 Purpose of Report

- 1.1 To provide Members with a brief overview of Internal Audit work, compliance with Financial Regulations, Contract Standing Orders, and general probity issues for the financial year ending 31st March 2015, and, to provide an opinion on the overall adequacy and effectiveness of the organisation's control environment.

### 2.0 Recommendations

- 2.1 Audit & Governance Committee is asked to **RESOLVE** to endorse the assurance from the Audit, Risk & Assurance Manager that a satisfactory level of assurance can be given that there is a generally sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently.

### 3.0 Background and Key Issues

- 3.1 Internal Audit work during the year was carried out to the standards outlined in the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note for the UK PSIAS.
- 3.2 The Standards require the Head of Internal Audit to 'provide a written report to those charged with governance timed to support the Annual Governance Statement'. A separate report containing the Annual Governance Statement is included on the agenda for the Audit & Governance Committee on 1<sup>st</sup> July 2015.
- 3.3 The Standards define internal audit as "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".

- 3.4 To achieve full effectiveness, the scope of the internal audit function should provide an unrestricted range of coverage of the organisation's operations and the internal auditor should have sufficient authority to access such records, assets and personnel as are necessary for the proper fulfilment of responsibilities. These access rights are specified in the Internal Audit Charter, which has been approved by Members and is referred to in the Council's Constitution.

#### **4.0 Opinion**

- 4.1 The Council's Audit, Risk & Assurance Manager is required to produce a formal annual report and opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- 4.2 My overall opinion is that a satisfactory level of assurance can be given that there is a generally sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently.
- 4.3 My opinion is based upon, and limited to, the work completed as part of the agreed 2014/15 Internal Audit Plan, the results of which have been reported to the Audit & Governance Committee 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.
- 4.4 These individual opinions are summarised below:-

<b>Opinion</b>	<b>No</b>	<b>%</b>
Good	12	36
Satisfactory	16	48
Limited	5	16
Unsatisfactory	0	0
<b>TOTAL</b>	<b>33</b>	<b>100</b>

**NB** On a number of audits a 'split' opinion has been provided. This approach helps to identify to management the specific areas of control that are/are not operating as intended, rather than provide an overall conclusion on all the areas covered by the audit. Where a 'split' opinion has been provided on an audit, both opinions have been included in the above table. Details of the audits that received a 'Limited' level of assurance are provided in Appendix 1.

- 4.5 The PSIAS state that, within this annual report, the Council's Audit, Risk & Assurance Manager should identify any issues that are relevant to the preparation of the Annual Governance Statement. From the risk-based Internal Audit assignment work undertaken during 2014/15, there are no issues of which I am aware which I regard as sufficiently significant to be considered in relation to the preparation of the Council's Annual Governance Statement.

#### **5.0 Summary of 2014/15 Work**

## **5.1 Annual Plan**

5.1.1 The Internal Audit Plan for 2014/15 was agreed by the Audit & Governance Committee at its meeting on 17<sup>th</sup> March 2014. Due to staffing issues, it became clear during the year that the original agreed Plan would not be achieved. Therefore, a revised Plan, for the period January 2015 to March 2015, was submitted for Members approval. This revised Plan was agreed by the Audit & Governance Committee at its meeting on 19<sup>th</sup> January 2015.

5.1.2 Audits have been carried out on the following areas during the year:

Financial Services; Revenues & Benefits (Client & Contractor); Streetcare; IT (Client & Contractor); Guildhall, Development Control, Economic Development, Performance Management; and Members Allowances.

The Audit & Assurance section also provided internal audit services, under a Service Level Agreement, to Gloucester City Homes.

## **5.2 Internal Control Assurance**

5.2.1 Internal financial controls are continually reviewed across all service areas by carrying out a mixture of system-based audits and probity audits.

5.2.2 System based auditing involves the identification, documentation, evaluation and testing of controls. Recommendations are made to management where weaknesses are identified. Where appropriate, use is made of CIPFA's System Based Auditing Control matrices. These matrices act as an aid to identifying the control objectives, expected controls and compliance tests for each main system.

5.2.3 Probity audit involves testing, by means of sampling, transactions to ensure that the 'rules' of the organisation have been adhered to, that material fraud and significant levels of error are not in evidence, and that the organisation is acting within its statutory powers.

5.2.4 The audit work on the main financial systems (e.g. main accounting system, creditors, benefits, payroll, council tax, NNDR) involved the testing of key controls as detailed within the Joint Working Agreement (JWA) between Internal Audit and External Audit. This JWA defined a number of key systems and key controls which the External Auditor would expect Internal Audit to cover on an annual basis to support the external audit work on the financial statements. The required scope for these encompassed both assessment of the design and implementation of controls, with walkthroughs of the system where applicable (testing of a single case to verify the documentation of systems and controls), and testing of the effective operation of the controls.

5.2.5 Close co-operation between audited bodies' internal and external auditors helps to ensure that audit resources are used efficiently and to maximum effect. The aim of the JWA is for External Audit to place a high degree of reliance on the work of the internal audit team. This will help inform their judgement on the Council's financial control environment, and is also one of the factors taken into account when calculating the External Audit fee.

5.2.6 The following comments have been received from the Council's External Auditor KPMG:-:

'Based on the files reviewed, KPMG did not identify any significant issues with Internal Audit's work and considered that Internal Audit's files contained appropriate evidence to support the conclusions reached and clear evidence of management review of work completed.'

5.2.7 Follow-up audits are planned to be carried out to ensure that agreed recommendations have been implemented. Members have requested to be informed of any Rank 1 'High Priority' recommendations that have not been implemented by the agreed date and these have been reported, where appropriate, via the quarterly 'Internal Audit Plan Monitoring Report'.

### 5.3 Other Issues

5.3.1 In relation to the 2014/15 Annual Plan, as stated above in para. 5.1.1, it became clear during the year that the original agreed Plan would not be achieved. Therefore, a revised Plan, for the period January 2015 to March 2015, was submitted for Members approval. This revised Plan was agreed by the Audit & Governance Committee at its meeting on 19<sup>th</sup> January 2015. The original agreed Plan was 76% completed, with 90% of the revised Plan being completed. Guidance suggests (at least) 90% for completion of the Audit Plan as a good benchmark.

#### 5.3.2 Key Performance Indicators for Internal Audit

The PSIAS state that performance monitoring should include performance targets.

a) One of the performance measures in place which is regularly reported to Members as part of the Internal Audit Plan Monitoring Report is the percentage completion of the Annual Plan.

The results for 2014/15, and the preceding two years, are shown below:-

Indicator	Target	Performance 2012-13	Performance 2013-14	Performance 2014-15
% of Audit Plan Completed	Min 90%	86% (Revised Plan)	88%	90% (Revised Plan)

b) In previous years, benchmarking data relating to the cost of providing the internal audit service has been obtained from the CIPFA Benchmarking Club. During 2014-15, a decision was made not to participate in the Benchmarking Club therefore no detailed benchmarking data is available. However, as part of the business case that has been developed for the new internal audit shared service with Glos. County Council and Stroud District Council, some benchmark costs were obtained for comparison and it was established that the new shared service would benchmark in the bottom quartile.

### c) Customer Feedback

At the completion of an audit, the auditee is asked to complete a questionnaire giving their views (on a scale of 1-4:- 1 = Poor; 2 = Fair; 3 = Good; 4 = Very Good) on the audit. This is in accordance with PSIAS which states that performance monitoring should include stakeholder feedback.

Although anecdotal evidence suggests a 'good' internal audit service is being provided, as at the end of March 2015, none of the effectiveness survey forms that were sent out had been completed and returned. Due to this lack of response rate, a revised method of obtaining feedback is to be introduced during 2015/16. This should make the task of providing feedback a simpler process, which, together with some support from SMT, should hopefully increase the level of feedback.

- 5.3.3 The work of each member of staff is controlled by the Audit, Risk & Assurance Manager to ensure conformance with the Standards. All reports and working papers are reviewed to ensure the correct approach has been adopted, no matters have been overlooked, and any conclusions can be supported.
- 5.3.4 In order to help ensure audit staff keep up to date with current issues and techniques, work reviews and annual staff development reviews are carried out to identify any training and personal development needs. In addition, all appropriate staff are encouraged to register with a relevant Continuing Professional Development (CPD) scheme.
- 5.3.5 In accordance with the Accounts & Audit (England) Regulations 2011, the annual review of the effectiveness of internal audit has been undertaken. The conclusion from the review, which is the subject of a separate report to the Audit & Governance Committee on 1<sup>st</sup> July 2015, was that internal audit is effective.
- 5.3.6 In addition to the annual review of effectiveness, the Council's External Auditors, KPMG, also review the internal audit work that has been carried out as part of the agreed JWA. The KPMG feedback is confirmed in paragraph 5.2.6 above.
- 5.3.7 In relation to staffing matters, the provision of the internal audit service to Gloucester City Council (GCC) and Stroud District Council (SDC) continued to be provided by Gloucestershire Audit & Assurance Partnership (**G A A P**). The provision of the Internal Audit service during the year was by a team of 6 auditors, 2 based at GCC (plus 1 vacant post), 3 based at SDC, and was managed by the Head of the Partnership.

## **6.0 Alternative Options Considered**

- 6.1 Consideration could be given to not producing an Annual Report, however, this would not be in accordance with the requirements of the PSIAS.

## **7.0 Reasons for Recommendations**

- 7.1 In accordance with the PSIAS and the Local Government Application Note for the UK PSIAS, the Council's Audit, Risk & Assurance Manager is required to produce a

formal annual report and opinion on the overall adequacy and effectiveness of the Council's internal control environment.

## **8.0 Future Work**

- 8.1 The Council's Internal Audit Plan for 2015/16 was approved by the Audit & Governance Committee on 16<sup>th</sup> March 2015. Achievement against the Plan will be regularly reported to the Audit & Governance Committee via the Internal Audit Plan Quarterly Monitoring Report.
- 8.2 In March 2015, Council approved the proposal to enter into a new internal audit shared service arrangement with Stroud District Council and Glos. County Council. This new shared service commenced on 1<sup>st</sup> June 2015. Although under this new arrangement all City Council Audit & Assurance staff transferred, under TUPE arrangements, to Glos. County Council, 3 staff remain based at the City Council offices.

## **9.0 Conclusions**

- 9.1 This report has been prepared in accordance with the PSIAS and the Local Government Application Note for the UK PSIAS, and provides the Audit, Risk & Assurance Manager' opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- 9.2 The opinion, which is based upon, and limited to the work performed by Internal Audit during the year, is that a satisfactory level of assurance can be given that there is a generally sound system of internal control, which is designed to meet the Council's objectives, and that controls are generally being applied consistently.

## **10.0 Financial Implications**

- 10.1 None specific to this report.

(Financial Services have been consulted in the preparation this report.)

## **11.0 Legal Implications**

- 11.1 The Accounts and Audit (England) Regulations 2011 referred to in this report have been revoked by the Accounts and Audit Regulations 2015. However, the 2011 Regulations continue to have effect in relation to financial years ending on or before 31<sup>st</sup> March 2015 and thus apply to the period covered by this report.
- 11.2 Regulation of 4(1) of the 2011 Regulations requires the Council to ensure that it has "a sound system of internal control which facilitates the effective exercise of (the Council's) functions and which includes arrangements for the management of risk".
- 11.3 In addition Regulation 4(3) requires the Council or a committee to "conduct a review at least once a year of its system of internal control". Following the review the Council or committee "must approve an annual governance statement, prepared in accordance with the proper practices in relation to internal control."
- 11.4 This report is not meant to constitute a review in accordance with paragraph 11.3 above. However, it would be appropriate to consider its contents in such a review,

along with any other pertinent evidence, prior to approving the annual governance statement.

(One Legal have been consulted in the preparation this report.)

## **12.0 Risk & Opportunity Management Implications**

- 12.1 The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records, and, governance arrangements. The organisation's response to internal audit activity should lead to the strengthening of the control environment and therefore contribute to the achievement of the organisations objectives.

## **13.0 People Impact Assessment (PIA):**

- 13.1 A requirement of the Accounts & Audit Regulations 2011 is for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.
- 13.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

## **14.0 Other Corporate Implications**

### Community Safety

- 14.1 There are no community safety implications arising out of this report.

### Sustainability

- 14.2 There are no sustainability implications arising out of this report.

### Staffing & Trade Union

- 14.3 There are no staffing and trade union implications arising out of this report.

**Background Documents:** Internal Audit Charter  
Public Sector Internal Audit Standards (PSIAS)  
Local Government Application Note for the UK Public Sector  
Internal Audit Standards  
Accounts & Audit (England) Regulations 2011

## **Appendix 1: List of audits that resulted in a 'Limited' level of assurance**

Audit	Limited
Members Allowances	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> <li>• A small number of incorrect payments made to Members identified by internal audit testing should be corrected.</li> <li>• Formal confirmation should be obtained as to whether the 2014/15 Allowances should be updated to include the 1% 2013/14 staff pay award.</li> <li>• The Democratic &amp; Electoral Services Manager should ensure that claimed expenses are supported by receipts, prior to authorisation of Member expense claims.</li> <li>• The Council website should be updated to ensure that the Members' Allowances Schemes for 2013/14 and 2014/15 are available for public viewing.</li> <li>• The 2012/13 and the 2013/14 Scheme payments should be published on the Council website and through a local newspaper public notice as soon as reasonably practicable.</li> <li>• Regular budget monitoring meetings should be held between Financial Services &amp; the Democratic &amp; Electoral Services Manager.</li> </ul>
Guildhall	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> <li>• Official orders for the purchase of goods or services should be raised in advance of the provision of the goods / services, in line with the requirements of the Councils Financial Regulations.</li> <li>• The aged commitments (outstanding orders) should be reviewed within the Financial Management System on a regular basis.</li> <li>• Review the appropriateness of the current user who has 2 login ID's for the Sundry Debtor system.</li> <li>• Review individual user authorisations within the Sundry Debtor system to ensure that there are adequate separation of duties within the roles of raising invoices and raising credits / write offs.</li> <li>• All sundry debtor invoices should contain the full legal entity (debtor name) in order to reduce the potential for invoices being challenged and debt recovery being adversely affected.</li> <li>• Sundry Debtor invoices should be raised in line with current service targets, which is currently either within 14 days of the event for individual bookings or the start of the following month for regular multiple bookings.</li> <li>• Consideration should be given to ensure that payment is fully receipted prior to the hire date in instances where the booking could be considered to be a one off hire, and / or there is no trading history with the hirer.</li> <li>• The Sundry Debtor Team should be contacted to arrange for the provision of regular debtor reports and for meetings to be set up to aid with reviewing and addressing ongoing recovery and removing irrecoverable debt and aged credits from the system.</li> <li>• The spreadsheet used for calculating charges for events hosted by Guildhall requires amendment to ensure that VAT is accounted for at the appropriate rate.</li> <li>• All previous events recorded on the spreadsheet should be reviewed to assess whether the correct payments have been made to promoters / acts and to the PRS, with actions being taken as appropriate to address any incorrect payments.</li> <li>• The Guildhall inventory spreadsheet requires an overhaul in to ensure that all appropriate assets are recorded.</li> </ul>

Audit	Limited
Benefits	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> <li>• The Client Team should ensure that action is taken by the Contractor to complete the rectification of errors backlog from May 2014 to September 2014 by year end 2014/15. This should include review of both the customer and subsidy impact caused by the backlog.</li> <li>• Actions are required to ensure the Contractor rectification of errors, identified by the Client Team 10% spot check of benefits assessment decisions, is completed on a timely basis and in line with the contract service standards on an ongoing basis.</li> <li>• The write off for approval cases identified with no action since 2012 should have write off completed, in line with the approved write off procedure.</li> <li>• Appropriate action should be taken to update the identified overpayment cases which have inappropriate overpayment categories.</li> <li>• Independent review of user access rights to the Benefits system should be completed on a regular basis to ensure that user access is appropriate and up to date.</li> <li>• System access should be immediately disabled for the 4 leaver cases identified within the audit sample.</li> <li>• Action should be taken to enable Client Team review and scrutiny of the benefits overpayment position, support identification of issue areas (including recovery delay) and confirm actions to be taken.</li> </ul>
IT	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> <li>• The Council has a suite of IT policies - however these are not up to date or available for all officers and Members to review;</li> <li>• Sign up to the Council's IT security policy has not been completed for new starters within 2014/15, prior to access to the council network being enabled;</li> <li>• Implementation of key Active Directory network access controls and confirmation &amp; completion of the IT deregistration process is required.</li> <li>• The Client Team should be informed of all significant proposed network access control changes;</li> <li>• The Client Team should ensure that all leavers with employment end dates prior to 31 March 2015 are deregistered from the network and council systems immediately;</li> <li>• The IT de-registration process should be reviewed and then implemented immediately.</li> </ul>
Payroll	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> <li>• HR to produce documentation checklists as a guide to assist with ensuring that all relevant new starter documentation has been obtained and retained for reference.</li> <li>• Payroll verification lists should be being run and issued to all relevant managers for their review on a regular basis.</li> <li>• HR are to confirm with the payroll provider which exception reports they will be providing to the City.</li> <li>• Immediate actions are required to clear the backlog of all documentation waiting to be scanned onto the Anite system.</li> <li>• HR should ensure that the authorisation of all manual claim forms is provided by the appropriate Line / Service Manager.</li> <li>• All invoices for payment are to be reviewed and processed in a timely manner.</li> </ul>