

North Somerset Council

REPORT TO THE	AUDIT COMMITTEE
DATE OF MEETING:	19 MARCH 2015
SUBJECT OF REPORT:	AUDIT & ASSURANCE ANNUAL REPORT 2014-15
TOWN OR PARISH:	NONE
OFFICER/PRESENTING:	JEFF WRING - HEAD OF PARTNERSHIP
KEY DECISION:	NO

RECOMMENDATIONS:

The Audit Committee notes the Internal Audit Annual Report 2014-15.

SUMMARY OF REPORT

The Audit Committee has received updates during the year on progress in delivering the Annual Audit Assurance Plan 2014-15. The plan is on target to be substantially completed by the 31st March 2015 and this is the closing update report to the Committee for the financial year. Also included is a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

1. POLICY

The work of the Internal Audit Service provides independent assurance to the council's senior officers and members that governance, risk management and controls are sufficient to ensure delivery of the council's objectives. As part of meeting statutory and professional requirements the Head of Audit is also required to provide an opinion on the council's internal control environment.

2. DETAILS

At its meeting of 5 June 2014, the Audit Committee approved the Annual Audit Assurance Plan for 2014-15. The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the council's internal control environment.

In determining the scope, depth and breadth of the Audit Assurance Plan, the Audit Committee accepts limitations in coverage and the inherent risks associated with this. As resources reduce, audit coverage is affected and this increases the risk in the level of assurance achieved through delivering the audit plan.

The Audit Committee most recently received an update on delivery against the plan on the 1st December 2014. This report builds upon that update.

INTERNAL AUDIT PERFORMANCE

NSC Audit & Risk Dashboard January 2014/15

Internal Audit

Annual Audit Plan Completed

71%



Green Target = >75%
Amber Target = >60%

Audit Reviews Completed in Assigned Days

81%



Green Target = >80%
Amber Target = >66.6%

Customer Satisfaction - Good or Excellent

100%



Green Target = >90%
Amber Target = >80%

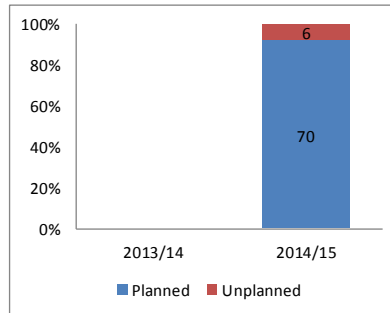
Recommendations (Critical / High) Implemented by Follow Up

100%



Green Target = >90%
Amber Target = >80%

Planned V Unplanned Work 2014/15



Overall Audit Recommendations

% Recommendations agreed in final report

100%



Green Target = >90%
Amber Target = >80%

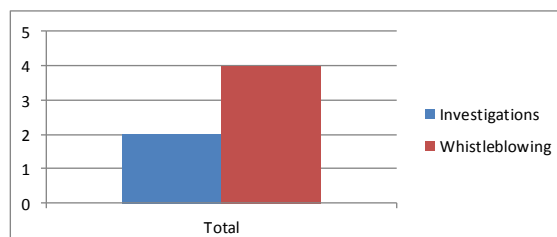
% All recommendations implemented at follow up

88%



Green Target = >90%
Amber Target = >80%

Investigations/Whistleblowing



PERFORMANCE SUMMARY

A) AUDIT PLAN COMPLETED

The performance dashboard details the position as at 31st January 2015, where 71% of audits have either been fully completed or are at reporting stage. Due to technical issues this is the latest dashboard we can produce however as at the time of writing this report the latest position was that 91% of planned work had been completed.

Work to substantially achieve the rest of the audit plan is well underway and I am pleased to report we are on track to deliver the remainder of the plan by April 2015.

The Head of Partnership and Audit and Corporate Governance Manager would therefore like to extend their thanks to the team on being able to deliver this challenging objective through a period of significant change.

B) AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

The percentage of audit reviews completed within the assigned days to date is 81%. This is a reasonable performance, meeting the target set, and represents the team's ability to complete work within defined timescales. Where audits have overrun and thus have incurred more time, these are predominantly in areas where significant control issues were found (as per 2.1) and/ or where it has been agreed that additional time would be given to the auditor to take into account any important changes or developments to the audit area since the review was originally planned.

C) CUSTOMER SERVICE

The Internal Audit service has maintained a focus on quality as one of its key values. One measure of this is the quality assurance surveys of auditees. Performance again of 100% satisfaction exceeded targets demonstrating high levels of satisfaction. In addition auditees often provide proactive feedback on individual's performance which has also been very positive.

D) IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS

The service operates three performance indicators for recommendations, as follows:

- i) Recommendations (Critical/ High) implemented by follow-up – achieved 100%
- ii) Recommendations (All levels) implemented by follow-up – achieved 88%
- iii) Recommendations agreed in final report – achieved 100%

Again performance is strong in this key area with targets substantially met, especially in the area of Critical or High level recommendations. These have all been followed-up and found to be implemented throughout the year. We are continuing to follow-up all other recommendations in line with the dates that they are due to be implemented by and can also report that 100% of audit recommendations proposed and have been agreed by the respective service managers.

E) INVESTIGATIONS/ WHISTLEBLOWING

We have undertaken six investigations during the year, two of which have been completed and four are still ongoing. Of the four ongoing, two have been referred to the Police.

The investigations, whilst in some cases serious in a specific area have not identified any significant failures in internal control or systemic issues with the Council's systems of governance.

2.1. CONTROL ISSUES

Of the 2014-15 reviews completed, four have resulted in an audit opinion where it was considered that the internal controls were either weak or poor (see appendix A for the grading criteria). Due consideration will be given to whether any of these issues are significant enough for inclusion in the Annual Governance Statement 2014-15.

- *Confirm Interface with ABW* – The link transferring the data between the two systems was found to be unreliable. A project to create an interface to enable the financial information generated in Confirm to create commitments and trigger payments in Agresso is ongoing.
- *Identity Fraud – Foster Carers* – issues include staff not having received the necessary training to identify fraudulent identity documents, lack of procedures around how identity documents are received and checked, and records were not being kept to show that the appropriate identity checks had been made.
- *School a* – Governance and Financial Control issues, school had recently appointed an Interim Executive Board and had a change in Headship.
- *School b* – Governance and Purchasing issues, including outdated policies, lack of benchmarking activity, no business continuity plans and insufficient financial information provided to Governors.

There were a number of other areas where some control issues were identified, however these are not considered of sufficient breadth or importance to represent significant control weaknesses. Internal Audit is satisfied that management is taking action to remedy any gaps in control.

2.2. RESOURCING & PARTNERSHIP WITH B&NES

The Audit Committee has been involved through the year in the proposals to move the service into a formal partnership arrangement with B&NES. This included updates at each committee meeting and then a specific detailed briefing session in October to the committee itself before a final proposal was approved by the Executive in December 2014.

As part of these proposals savings detailed in the medium term financial plan of £100K were required to be made before the end of March and this has resulted in the reduction of the team by two members of staff through redundancy.

Despite the obvious difficulties and challenges of working through these processes the team has continued to deliver strongly against its plans through joint working and clarity of its priorities. Reliance continues to be placed on other sources of assurance where possible and through collaborative working with other service areas. The

service has a strong culture of performance management and every team member is clear about their work priorities and obligations.

Final 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.

2.3. CONTINUOUS PROFESSIONAL DEVELOPMENT

The service has a training and development plan and each member of the team has their own plan. The service has been an active member of local audit networks and attended various Institute of Internal Auditors' local training events in 2014-15.

Team members have attended various other internal and external training courses. Four of the team have continued with their professional development and have been successful in passing exams. As a result, the service now benefits from having additional staff that are IIA, AAT and CBCI qualified

NSC team meetings are held on a monthly basis and Partnership meetings every 3-4 months. Partnership meetings have proved to be an efficient way of sharing key information, as well as being very successful in further integrating the teams.

2.4. FEE BASED WORK

The Audit Committee is aware that we have provided fee based Audit and Business Continuity services to Academy Schools for a number of years. During the year we have continued to build on this and have extended these services further to schools outside of North Somerset Council.

We have also provided Business Continuity and NNDR project services to B&NES council throughout the financial year, generating valuable income for the Internal Audit Service.

The service continues to explore further opportunities for income generation.

2.5. RISK MANAGEMENT

The Council's approach to risk management is described in the Risk Management Strategy which is supported by an annual Risk Management Improvement Plan. The Audit Committee has received updates on the strategy and delivery against the improvement plan throughout the year which have been primarily focussed around the Corporate Risk Register.

Specific focus within this was made around the Transformation Programme and our approach to Procurement and Commissioning at our December workshop.

The Council's corporate and directorate risk registers remain highly dynamic as a consequence of the rapidly changing environment in which the council operates and updates will continue to be made through the work plan of the Committee.

2.6. COUNTER FRAUD

The Audit Committee has received updates on the council's Counter Fraud Strategy and Improvement Plan and a separate report is provided to cover this in more detail.

In summary, excellent progress against benefit fraud continued throughout the year. At the end of January 2015 we had issued £13,760 worth of administrative penalties and recovered £18,520.

In addition to the above, this year the service has also provided new counter fraud training sessions to schools and academies.

2.7. BUSINESS CONTINUITY

Internal Audit continues to provide the Authority's Lead in Business Continuity ensuring that the Business Continuity Action Plan has been completed. This is separately reported to the Committee.

Notably three live exercises have been completed during the year along with participation in Exercise "Operation Cygnus" that tested the preparedness of the Council during a pandemic flu event.

The service continues to look at ways of sharing best practice and widening assurance and 54 Schools in North Somerset and 4 outside North Somerset were also visited resulting in Business Continuity plans being developed and exercised at the schools.

Emerging risks identified during the year include assurance around key external contractors having sufficient business continuity arrangements and risks around future service delivery through new ways of working from the Transformation Programme. Both of these will continue to be assessed as part of the 2015/16 plan.

2.8. FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK

As part of their statutory requirements the Head of Audit & Assurance is required to give an opinion on the internal control framework. In forming this view I have considered the work of the Audit & Assurance function as well as consideration of the wider governance framework and performance of the Council.

It is my opinion that at the current time the Council's internal control framework and systems to manage risk are reasonable.

- 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;

The continued reduction on council budgets places further pressure on services, including the Internal Audit function, to adapt to this changing framework and also provide the right balance of scrutiny and support to management. The Audit Committee's support in ensuring this balance and maintaining effective corporate governance is appreciated and I would like to thank all members of the committee for their input and guidance over the past year.

3. CONSULTATION

The Annual report refers to facts and opinions that have been included within individual Audit Reports that have been distributed to, and agreed with, senior managers. The Audit Committee has received updates during the year of progress made in delivering the plan. The service meets regularly with the directorates to update them on the audit plan and ensure the plan continues to reflect the risks.

4. FINANCIAL IMPLICATIONS

Internal Audit's staff costs for 2014-15 were around £410k which involved further reductions in resources of £100K during the year. In addition to delivering the audit plan the service delivers a range of additional assurance functions including business continuity, financial assessments for contractors, corporate investigations and counter fraud activity.

5. RISK MANAGEMENT

Significant risks to the council arising from an ineffective Internal Audit service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees and undetected fraud.

6. EQUALITY IMPLICATIONS

Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

7. CORPORATE IMPLICATIONS

Failure to deliver the agreed Annual Assurance Plan may result in an inability to provide adequate assurance to officers, members and the public of the soundness of the council's corporate governance.

8. OPTIONS CONSIDERED

None, this is an annual report.

AUTHORS

Jeff Wring Head of Partnership jeff.wring@n-somerset.gov.uk

BACKGROUND PAPERS

Audit Committee Report 5 June 2014 – Annual Audit Assurance Plan 2014/15

Update Performance Report Dec 2014 – Audit Committee Workshop

Executive Committee Report 9th December 2014 - NSC Partnership

Appendix A - Audit Opinion:

Assurance Rating	Opinion
Level 5	The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary
Level 4	The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However there is one area detailed in the Assurance Summary which requires improvement and specific recommendations are detailed in the Action Plan
Level 2	The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
Level 1	The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee