

WAVERLEY BOROUGH COUNCIL
AUDIT COMMITTEE – 23 JUNE 2015

Title:

INTERNAL AUDIT ANNUAL REPORT 2014/15 ACTIVITY

[Wards Affected: All]

Summary and purpose:

The Accounts and Audit Regulations require local authorities to maintain an adequate and effective internal audit of their accounting records and control systems. This report is a summary of the work carried out by Internal Audit during the financial year 2014-15 and provides an assurance opinion to support the Annual Governance statement.

How this report relates to the Council's Corporate Priorities:

The maintenance of an effective internal control environment supports all corporate priorities.

Financial Implications:

Maintenance of an effective internal audit service efficiently provides an internal audit service to Waverley Borough Council that embraces the requirements of the CIPFA Code of Practice, the Public Sector Auditing Standards and other professional internal audit institutes.

Legal Implications:

This report fulfils a legal requirement "to report the annual activity of the Audit Service" as contained in the Accounts and Audit Regulations.

Introduction

1. The annual review of the system of internal audit is required under the Accounts and Audit Regulations, to maintain an adequate and effective internal audit of their accounting records and control systems. This report provides the Council with assurance on the adequacy of those controls.
2. Attached in Annexe 1 is the Internal Audit Annual Report covering the activity for 2014-15, complete with performance measures and other Fraud and Corporate Governance related issues carried out in the last year financial year.

Conclusion

3. The report presents to the Audit Committee a comprehensive overview of the control environment status in Waverley Borough Council. Nevertheless, further improvements are required to enhance the performance measures and turnaround time outputs.

Recommendation

It is recommended that the Audit Committee notes the progress and the activity completed by the Internal Audit Service for 2014-15, and notes the outcomes being achieved by investigating housing issues and working collaboratively between services and other organisations.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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ANNEXE 1



Internal Audit Annual Report Year ended 31 March 2015

Presented at the Audit Committee meeting of: 23rd June 2015

Gail Beaton
Internal Audit Client Manager

INTERNAL AUDIT OPINION

Context







As the Internal Audit Client Manager I am required to provide the Section 151 Officer and the Audit Committee an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving my opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

As the Internal Audit Client Manager I rely largely on the audit opinions that Baker Tilly Risk Advisory Services LLP (Baker Tilly), our Internal Audit Contractor provided to the organisation during the year as part of the framework of assurances that assist the Council to prepare an informed annual governance statement.

Internal Audit Opinion 2014/2015

I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion on the adequacy and effectiveness of Waverley Borough Councils arrangements.

For the 12 months ended 31 March 2015, based on the work undertaken, the opinion regarding the adequacy and effectiveness of Waverley Borough Councils arrangements for governance, risk management and control is as follows:

	Red	Amber	Green	Direction of travel
<p>Governance</p> <p>Based on the arrangements in place to manage the governance framework.</p>				
<p>Risk Management</p> <p>The revision of the Risk Management process presented to the Audit Committee March 2015 provides reasonable assurance opinion.</p>				
<p>Control</p> <p>Work completed identified adequate/strong control framework and applications of controls across the range of financial areas reviewed.</p>				

Note: The direction of travel arrow indicates whether the change in opinion related to the previous year is upward (improving), downward (adverse) or static.

The Basis of the Opinion

Governance

The governance arrangements continued to reinforce the control environment which provides an overall 'Green' assurance opinion.

Risk Management

The Council has a good approach to risk management, which is co-ordinated by the Director of Finance and Resources, through the Risk and Insurance Officer, who ensures that Heads of Services are reviewing and updating their risk registers frequently and as a minimum on a quarterly basis in relation to their Annual Service Plan. Risk management is integrated into governance arrangements and clearly informs the annual statement of governance.

Control

Reviews of eight specific key financial areas were completed in 2014/15 and I am satisfied that controls in these areas were operating effectively. Two reports resulted in a '**Green**' substantial assurance opinion, with five receiving an '**Amber Green**' and one receiving an '**Amber Red**' opinion.

Acceptance of Recommendations

All of the recommendations made during the year 2014/15 were accepted by management.

Comparison of Internal Audit Opinions (Assurance assignments) in 2014/2015 compared with 2013/2014.

<i>Year</i>	<i>Red</i>	<i>Amber Red</i>	<i>Amber Green</i>	<i>Green</i>
2013/14	2	3	11	9
2014/15	1	7	11	6

Comparison of Internal Audit recommendations made 2014/2015 compared with 2013/2014, highlights areas of concern have been raised and addressed by management.

Year	High	Medium	Low
2013/14	20	42	44
2014/15	7	66	29

Progress made with previous internal audit recommendations

Follow up of the recommendations made in 2013/2014, including those that were outstanding from previous years, showed that the organisation had made excellent progress in implementing the agreed recommendations, as summarised below:

Recommendation Priority	Number made in 2013/2014	Of which:	
		Addressed	Not implemented or still in progress
High	20	18	2* relates to Asset Management Strategy for approval at Committee on 07/07/2015
Medium	42	42	0
Low	44	44	0
Totals	106	104	2

Fraud Prevention, Detection and Investigation

During the year the following work was completed to investigate areas raised of possible frauds. This report includes not only the work completed by Internal Audit as a result of cases raised through the corporate ReportIT online facility but also those raised directly to the Internal Audit Service, via email or telephone etc. The overview includes an analysis of the work carried out by the Housing Benefits Investigation Team. Detailed below is the progress being made in other Housing Tenancy Fraud investigations, where work on this issue has been accelerate due to the opportunity being provided by the Department of Communities and Local Government through funding until the end of 2015/16, to encourage partnership working to address non housing benefit fraud. Waverley Borough Council has joined Surrey County Council and 6 other local authorities to form the Surrey Counter Fraud Partnership. The funding obtained has enabled Waverley to appoint a Fraud Investigator on a temporary basis to initially focus on housing tenancy fraud.

Activity Report (ReportIT & other referrals methods)

Year	2012/13	2013/14	2014/15	2015/16 @27/05/15
No of cases reported	10	5	26	13
Closed	9	5	14	4
Results from those closed	WB13-05 property retained and re-let	WB14-02 Property retained and re-let	WB15-06 Property retained and re-let	WB16-03 Application for 3 bed stopped. WB15-05 Single Person Discount ceased WB16-14 Application for tenancy stopped.
Still being investigated	1	0	12	9
TOTAL	10	5	26	13

Provided below is the Housing Benefit Investigation Team Activity for 2014/15

Total Referrals in year	Total Rejected	Investigations				Outcomes		
		Opened	Closed No Fraud	Closed Claimant Error	Closed Fraud Proven	Prosecutions	Administrative Penalties	Cautions
202	104	98	82	2	23	9	1	13

Overpayments & Income Summary

Total overpayments Identified	Claimant error	Adpens Created	Court Costs Awarded	Subsidy @ 40% on Fraud Overpayments	Total Overpayments from Sanctions
£226,801.75	£8,089.89	£650.00	£4,713.00	£90,720.70	£332,959.40

Reliance Placed Upon Work of Other Assurance Providers

In forming my opinion I have placed reliance on other assurance providers. The Annual Audit Letter from the External Auditors (the last one received from the Audit Commission) states "I issue an unqualified opinion on the Authority's

2014/15 financial statements included in the Authority's Statement of Accounts; concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources".

SERVICE PERFORMANCE

Wider value-adding delivery

As part of our contractor's client service commitment, during 2014/15 they have:

- issued 11 news bulletins to their local authority clients;
- provided a seminar for the East Surrey Internal Audit Consortium in October 2014 which focused on risks around:
 - Procurement
 - Contract Management
 - Social Value
- Providing benchmarking within their reports on the number and category of recommendations and assurance opinions across other organisations where appropriate;
- Made suggestions throughout their audit reports based on their knowledge and experience in the local government sector to provide areas for consideration;
- Used specialist to undertake a review of your policies and procedures from a fraud perspective
- Provided regular contact and ad-hoc telephone calls and responded to queries from senior staff throughout the year.

Conformity with Internal Audit Standards

Our Contractor Baker Tilly affirms that their internal audit service to Waverley Borough Council is designed to conform with the Public Sector Auditing Standards (PSAS) which came in to effect from 1 April 2013.

Under the standards, internal audit services are required to have an external quality and review at least once every five years. During 2011 our contractors Risk Advisory service commissioned an external independent review of their internal audit services to provide assurance that their approach meets the requirements set out in the International Professional Practices Framework (IPPF) published by the IIA. The PSIAS are based upon IPPF, and therefore we are confident that the results of this review apply to our continuing services in the sector.

The external review concluded that *"the design and implementation of systems for the delivery of internal audit provides **substantial assurance** that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner"*.

Conflicts of Interest

The contractors have not undertaken any work or activity during 2014/2015 that would lead them to declare any conflict of interests.

Performance Indicators





The service performance during 2014/2015 is summarised below across a range of performance indicators. (C) Denotes that this is contractor related and (WBC) denotes Waverley related.

Delivery					Quality			
Calendar Days	Target	Actual Year 2014/15	Prev Year 2013/14	Prev Year 2012/13	Target	Actual	Notes (ref)	
Average no. of days between Contractor exit meeting and the issue of Draft Report (C)	28	22	24	25	Compliance with CIPFA Code of Practice for Internal Auditing	Yes	Yes	
Average no. of days between the Contractor providing the report to WBC and WBC receiving the file.(C)	5	9	6	8	Extent to which External Audit place reliance on our work	Yes		Unknown
Average number of days between the IACM Exit meeting & obtaining management comments and the issuing of Final Report (WBC)	28	34	32	27				
Average number of days for Heads of Service to return report after signing. (WBC)	5	11	23	5				
Completion of audit plan work by 31 st March (C)	100%	93%	92%	89%				

**APPENDIX A: INTERNAL AUDIT OPINIONS AND RECOMMENDATIONS
2014/2015**

Audit	Link to risk or rationale for coverage	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Audits to address specific risks					
Payment Card Industry Std (PCI)	Assurance		1	6	2
Wireless Network	Assurance		0	0	2
Systems Review of Orchard IT Management System	Assurance		0	3	1
Housing tenancy void management and terminations	Assurance on systems in operation		0	7	1
Legionella, electrical, fire checks etc in Waverley Properties	Assurance on systems in operation				
Housing property database (Keystone)	Systems review re usage of contractor		0	4	2
Gas Maintenance in Waverley Properties	Review of new Allocations Policy introduced in 2012		1	2	1
Rent Deposit Scheme	Assurance on the system in operation		0	0	2
Planning Procurement of specialist professional services (Agricultural appraisals, Counsel etc)	Assurance on the system in operation		0	5	0
Health & Safety	Assurance		0	1	0

Safeguarding	Review of system in operation		1	4	1
Car Parking	Housing Responsive Repairs and voids improvements opportunities		1	2	1
Refuse Collection	Assurance		0	2	0
Environmental Protection Team	Assurance		0	3	4
Fuel Cards (WBC Owned Vehicles, Pool cars and Countryside)	Review of systems in operation		1	2	2
Sport Centre Refurbishment (Hérons)	Assurance		0	0	0
Document Scanning service	Assurance		2	5	0
Waverley Training Services	Assurance		0	2	0
WTS contractor funding issue (Advisory)	Advisory	Advisory			
Member Allowances	Assurance		0	0	1
Core Assurance					
Payroll	Key Financial System		0	4	2
Housing Benefits and Council Tax Support	Key Financial System		0	0	0
Council Tax	Key Financial System		0	1	0
Asset (Lease) Register	Key Financial System		0	3	1

Reconciliations of all Key Financial Systems	Key Financial System		0	1	0
NNDR	Key Financial System		0	2	1
Cash Income System	Key Financial System		0	2	0
Payments	Key Financial System		0	5	5
Total			7	66	29

The following levels of opinion classification are used within our internal audit reports:

Red	Amber / Red	Amber / Green	Green
<p>Taking account of the issues identified, the Board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.</p> <p>Action needs to be taken to ensure this risk is managed.</p>	<p>Taking account of the issues identified, whilst the Board can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.</p>	<p>Taking account of the issues identified, the Board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.</p> <p>However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.</p>	<p>Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.</p>