

Open

Audit Committee

Agenda

6.00pm
Monday, 24th June 2013
Council Chamber
Wyre Forest House
Finepoint Way
Kidderminster



Audit Committee

Members of Committee:

Chairman: Vacant

Vice-Chairman: Vacant

Councillor P Dyke

Councillor J A Greener

Councillor M B Kelly

Councillor N Knowles

Councillor D McCann

Councillor J W Parish

Councillor J Phillips

Councillor C Rogers

Information for Members of the Public:

Part I of the Agenda includes items for discussion in public. You have the right to request to inspect copies of Minutes and reports on this Agenda as well as the background documents used in the preparation of these reports.

Part II of the Agenda (if applicable) deals with items of "Exempt Information" for which it is anticipated that the public may be excluded from the meeting and neither reports nor background papers are open to public inspection.

There are particular circumstances when the Ethics and Standards Committee may exclude the public, which are in addition to those available at meetings of the Council, its Cabinet and Committees etc. These apply when the Ethics and Standards Committee considers the following:

Information relating to a particular chief officer, former chief officer or applicant to become a chief officer of a local probation board within the meaning of the Criminal Justice and Court Services Act 2000.

Information which is subject to any obligation of confidentiality.

Information which relates in any way to matters concerning national security.

Declaration of Interests by Members – interests of members in contracts and other matters

Declarations of Interest are a standard item on every Council and Committee agenda and each Member must provide a full record of their interests in the Public Register.

In addition, alongside the Register of Interest, the Members Code of Conduct ("the Code") requires the Declaration of Interests at meetings. Members have to decide first whether or not they have a disclosable interest in the matter under discussion.

Please see the Members' Code of Conduct as set out in Section 14 of this constitution for full details.

Disclosable Pecuniary Interest (DPI) / Other Disclosable Interest (ODI)

DPI's and ODI's are interests defined in the Code of Conduct that has been adopted by the District.

If you have a DPI (as defined in the Code) in a matter being considered at a meeting of the Council (as defined in the Code), the Council's Standing Orders require you to leave the room where the meeting is held, for the duration of any discussion or voting on that matter.

If you have an ODI (as defined in the Code) you will need to consider whether you need to leave the room during the consideration of the matter.

For further information:

If you have any queries about this Agenda or require any details of background papers, further documents or information you should contact Sue Saunders, Committee/Scrutiny Officer, Wyre Forest House, Finepoint Way, Kidderminster, DY11 7WF. Telephone: 01562 732733 or email susan.saunders@wyreforestdc.gov.uk

Wyre Forest District Council

Audit Committee

Monday 24th June 2013

Council Chamber, Wyre Forest House, Finepoint Way, Kidderminster

Part 1

Open to the press and public

Agenda item	Subject	Page Number
1.	Appointment of Chairman for the meeting and Apologies for Absence	
2.	Appointment of Substitute Members To receive the name of any Councillor who is to act as a substitute, notice of which has been given to the Director of Community Assets & Localism, together with the name of the Councillor for whom he/she is acting.	
3.	Declarations of Interests by Members In accordance with the Code of Conduct, to invite Members to declare the existence and nature of any Disclosable Pecuniary Interests (DPI's) and / or Other Disclosable Interests (ODI's) in the following agenda items and indicate the action that they will be taking when the item is considered. Please see the Members' Code of Conduct as set out in Section 14 of the Council's Constitution for full details.	
4.	Minutes To confirm as a correct record the Minutes of the meeting held on the 18 th March 2013.	6
5.	Audit Committee Update Report To receive a report from Grant Thornton in relation to audit progress and update for 2012/13.	10
6.	Internal Audit Monitoring Report Quarter Ended 31st March 2013 To receive a report from the Section 151 Officer and the Principal Auditor informing Members of the Internal Audit Monitoring Report Quarter ended 31 st March 2013.	23

7.	<p>Internal Audit Annual Assurance Report 2012/13</p> <p>To receive a report from the Section 151 Officer and Principal which asks for approval of the Internal Audit Annual Assurance report.</p>	46
8.	<p>Annual Governance Statement</p> <p>To receive a report from the Director of Resources asking for approval of the Annual Governance Statement and Annual Governance Action Plan 2012/13 for inclusion within the Statement of Accounts.</p>	54
9.	<p>Report on Final Accounts</p> <p>To receive a report from the Director of Resources which asks the Committee to consider a pre-audit copy of the Council's Statement of Accounts for the financial year 2012/13. (To follow)</p>	-
10.	<p>To consider any other business, details of which have been communicated to the Director of Community Assets & Localism before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.</p>	
11.	<p>Exclusion of the Press and Public</p> <p>To consider passing the following resolution:</p> <p>“That under Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of “exempt information” as defined in the paragraph 1 of Part 1 of Schedule 12A to the Act”.</p>	

Part 2

Not open to the Press and Public

12.	<p>To consider any other business, details of which have been communicated to the Director of Community Assets & Localism before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.</p>	
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WYRE FOREST DISTRICT COUNCIL

AUDIT COMMITTEE

COUNCIL CHAMBER, WYRE FOREST HOUSE, FINEPOINT WAY,
KIDDERMINSTER

18TH MARCH 2013 (6.00PM)

Present:

Councillors: D C H McCann (Chairman), M A Salter (Vice-Chairman), P Dyke, J A Hart, M B Kelly, N Knowles and C Rogers.

Observers:

Councillor H E Dyke.

AUD.29 Apologies for Absence

Apologies for absence were received from Councillor J W Parish.

AUD.30 Appointment of Substitutes

There were no appointments of substitutes.

AUD.31 Declarations of Interests by Members

No declarations of interest were made.

AUD.32 Minutes

Agreed: The minutes of the meeting held on 3rd December 2012 be confirmed as a correct record of the meeting and signed by the Chairman.

The Chairman announced a revised running order for the agenda in that the Human Resources element of agenda item no. 10 would be taken before agenda item no. 5.

AUD.33 Internal Audit Monitoring Report Quarter Ended 31st December 2012

The Committee received a verbal update from the Human Resources Officer on the progress of the Establishment report. Members were assured the report would be completed by 31st March 2013. The Chairman requested the report be circulated to Committee Members via email once the report had been signed off by the Corporate Management Team.

Agreed:

- **The update be noted.**
- **The Establishment Report would be circulated to Committee Members when completed.**

AUD.34 Communication with the Auditor Document

The Committee received a report from Grant Thornton which detailed the Auditing Standards – Communication with the Audit Committee for the Audit year 2012-2013.

Members were advised the purpose of the report was to ensure there was effective two-way communication between the Audit Committee, who were charged with governance, and the external auditor.

The Committee considered the series of questions and responses listed in the report. Following a question from a Member regarding the monitoring of revenue costs for large projects undertaken by the Council, the Committee requested an update on the total spend on the new HQ building, any evidence available on savings being made and an update on the key snagging points.

Members acknowledged the confidential nature of the ongoing discussions regarding the heat pump, however requested the update included a possible timeline for resolving the issues. The Director of Resources agreed to obtain the information for the Committee.

Agreed:

- **The report be noted.**
- **The Director of Resources would obtain the information requested on the new HQ building for the Committee Members.**

AUD.35 Certification Work Report

The Committee considered a report from Grant Thornton which detailed certification work for 2011-2012.

Members were led through the report and thanks were given to the Welfare Reform Development Manager and her team for their outstanding work and the support given to the external auditors.

Agreed: The report be noted.

AUD.36 Audit Committee Update Report

The Committee considered a report from Grant Thornton which provided an update on audit progress and a summary of emerging national issues and developments.

In response to a Members question, the Director of Resources advised the Council were not aware of any equal pay claims and were not expecting any.

In light of the financial challenges ahead, Members acknowledged the need to monitor the Council's finances more closely.

Agreed: The report be noted.

AUD.37 Audit Plan

The Committee considered a report from Grant Thornton on the Audit Plan for year ended 31st March 2013.

Members were pleased with the results of the interim audit work and praised the work undertaken by the Internal Audit team.

Agreed: The report be noted.

AUD.38 Internal Audit – Annual Audit Plan 2013-2014

The Committee received a report from the S151 Officer and Principal Auditor that informed Members of the Internal Audit – Annual Audit Plan 2013 – 2014.

The Principal Auditor led Members through the report and highlighted the areas where slight changes had been made to the plan.

Agreed:

- **The Internal Audit – Annual Audit Plan 2013 – 2014, attached as Appendix 1 to the report of the Audit Committee at its meeting on 18th March 2013 be approved.**
- **Approval be given for the Section 151 Officer to amend the plan in light of developments arising during the year as described in paragraph 3.7 of the report to the Audit Committee at its meeting on 18th March 2013, and in accordance with paragraph 3.3 (b) of the approved Terms of Reference for Internal Audit.**

AUD.39 Internal Audit Monitoring Report Quarter Ended 31st December 2012

The Committee considered a report from the Principal Auditor which informed Members of the Internal Audit Monitoring Report for the Quarter ended 31st December 2012.

Members were led through the report and advised twenty action plans had been issued during the quarter, formal reports would be presented to the Committee in due course.

Agreed: The report be noted.

AUD.40 Annual Governance Statement

The Committee received a report from the Director of Resources which presented Members with the current position in relation to the action plan which was developed to address the issues identified within 2011/12.

Members were led through the report and advised the Council were expecting a further payment from the “Icelandic” investments in April 2013. In response to a Members question, it was confirmed there was no accepted level of reserves, individual authorities set their own levels in relation to their financial risks.

Agreed: The progress against the Annual Governance Statement Action Plan 2011/12, attached at Appendix 1 of the report to the Audit Committee at its meeting on 18th March 2013 be approved.

AUD.41 Risk Management – Corporate Risk Register

The Committee considered a report from the Director of Resources which presented Members with the current Corporate Risk Register.

Members were advised the risks were monitored by the Corporate Management Team and would be updated for the next financial year.

Agreed: The Corporate Risk Register and associated mitigating actions as at 31st December 2012 be noted.

There being no further business, the meeting ended at 7.35pm.



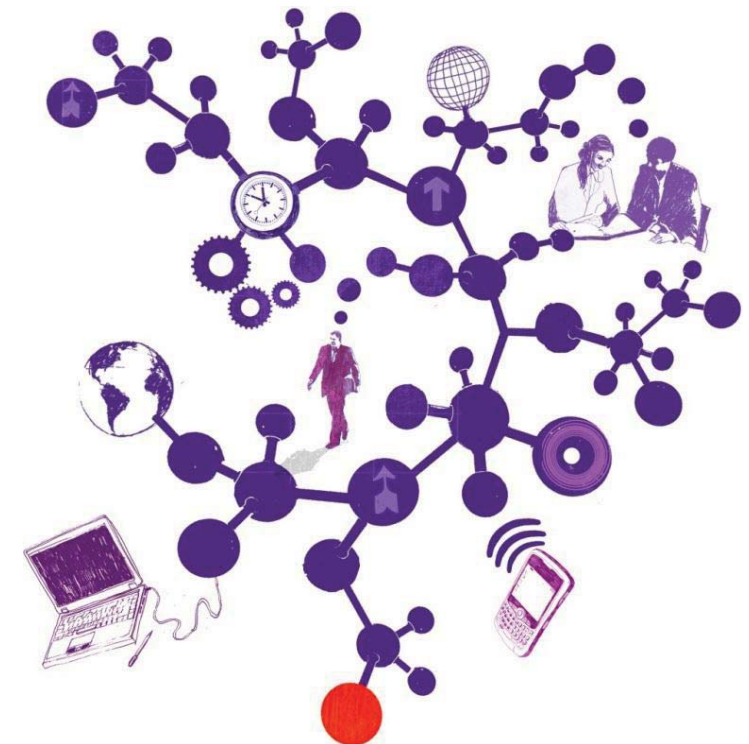
Audit Committee Update for Wyre Forest District Council

Year ended March 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a District Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at June 2013

Work	Planned date	Complete?	Comments
<p>2012-13 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the District Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.</p>	March 2013	Yes	Report presented to March audit committee
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	February 2013	Yes	We have completed our planned work. No findings were identified at this stage which require reporting to you.
<p>2012-13 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July/August 2013	No	We have prepared a detailed working paper requirements document and shared with officers to support our final accounts process. We will discuss with officers prior to the submission of the accounts any technical and presentational issues they have.

Progress at June 2013

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2012/13 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • Securing financial resilience; and • Challenging how it secures economy, efficiency and effectiveness. 	<p>Feb/March</p>	<p>In part.</p>	<p>We are currently finalising work to support our conclusion.</p>

Emerging issues and developments

Accounting and audit issues

LAAP Bulletin 96: Closure of the 2012/13 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued [LAAP Bulletin 96](#). The bulletin provides further guidance and clarification to complement CIPFA's 2012/13 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- a reminder that authorities should tailor CIPFA's example financial statements to meet their own reporting needs in order to give a true and fair view of their own financial position and performance
- the need for billing and precepting authorities to disclose their share of non-domestic rate appeals liabilities that transferred to them on 1 April 2013

Challenge question:

- Has your Director of Resources reviewed the guidance and assessed the potential impact for your financial statements?

Emerging issues and developments

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2013/14. The main changes to the Code include:

- amendments for the requirements of the localisation of business rates in England
- amendments to how 'other comprehensive income' is presented in the Comprehensive Income and Expenditure Statement. These changes follow the June 2011 amendments to IAS 1 Presentation of Financial Statements.
- amendments to how authorities should account for the cost of employees. This is as a result of the June 2011 amendments to IAS 19 Employee Benefits and include amendments to the classification, recognition, measurement and disclosure of local authority pension costs. This is accounted for as a prior period adjustment which means that the figures for previous years will need to be restated.
- clarifications and improvements of the Code as a result of the CIPFA/LASAAC post-implementation review of IFRS on issues such as:
 - the recognition and measurement of property, plant and equipment – in particular, paragraph 4.1.2.35 of the Code now requires items within a class of property, plant and equipment to be revalued simultaneously. The Code does permit a class of assets to be revalued on a rolling basis provided the revaluation is completed within a short period and provided the revaluations are kept up to date.
 - leases and lease-type arrangements (for example where lease rentals are charged at peppercorn rents)
 - service concession (PFI/PPP) arrangements in relation to assets under construction and intangible assets
 - the recognition of non-current assets held for sale
- amendments relating to deferred tax which may be applicable to authorities with group accounts. These follow amendments to IAS 12 Income Taxes issued in December 2010.

The Code also notes that guidance on the adoption of IFRS 13 Fair Value accounting and on accounting for schools has been deferred to the 2014/15 Code.

Challenge questions:

- Is your Director of Resources aware of the changes to the 2013/14 Code and assessed the potential impact?
- In particular, has your Director of Resources consulted:
 - your actuary to ensure you will have the information you need to restate amounts relating to pensions from previous years
 - your valuer to ensure that your revaluation programme complies with the new requirements for property, plant and equipment?

Emerging issues and developments

Accounting and audit issues

Internal audit – practice case studies

The NAO and the Institute of Internal Auditors have released a [set of case studies](#), available on the NAO website, illustrating some of the key principles of effective internal auditing, taken from a range of public and private sector organisations (including British Telecom, Department for Work and Pensions, EDF). These cover the following areas:

- applying internal audit resources
- scope of internal audit
- auditing projects
- the relationship with the audit committee
- risk-based internal audit
- evaluating internal audit

Examples of the practical advice these case studies provide are:

- 'ensure that the internal audit function has the right development practices and the right mix of people'
- 'internal audit must check its own performance'
- 'look at the range and depth of assurance that is being provided to management from other assurance providers within the organisation: this will reduce the duplication and free up resources to provide deeper assurance in other areas'
- 'make sure that internal audit's work is aligned to management's view of risk: the function may be focussing on the wrong issues if it does not understand management's risk priorities'
- 'review whether senior management and the business share the same view of risk – highlight where differences occur to ensure that the right risks and controls are targeted in the audit plan'
- 'consider carrying out a benchmarking review with a similar sized organisation in the same industry sector to compare and contrast approaches to internal audit and resourcing'

Challenge question:

- How can you drive more organisational value from internal audit?

Emerging issues and developments

Grant Thornton

Use of Outsourced IT Services

Over the past few years, there has been an increasing move to outsourcing IT services to third parties within the Local Government sector. This has accelerated over the last year as a result of need to drive efficiencies across the public sector.

Two recent incidents have highlighted the need to carry out proper due diligence and ensure the correct contractual and technical provisions are in place when signing agreements with third parties:

- a major IT service provider, who offered a wide range of services including Network, Communications and Data Centre Management, recently went into administration. This created significant uncertainty for their clients in terms of on-going business as usual requirements as well as access to data. At one point clients were asked to make additional payments in order to gain access to their critical data.
- a large NHS Trust had a failure of its hard disk drive containing its financial data. On contacting the supplier responsible for taking back ups, it became evident that no data back ups had been taken in the preceding 6 months and therefore the client had lost 6 months of data. As a result, the system had to be restored to the last back up date and the data recreated. This was a time consuming and expensive exercise, and has impacted on the financial audit work where additional procedures will have to be performed.

Both of these incidents highlight the risks involved when outsourcing services. Organisations with critical data who run their own data centres would have normally considered the risks associated with a failure of an IT service (or an entire data centre) and would have taken steps to mitigate these risks. Companies who outsource the performance of key services still retain responsibility for their operating and regulatory requirements, and for ensuring that the control environments supporting their business processes are operating effectively, regardless of who is managing them.

Challenge question:

- Are you happy that your Director of Resources has procedures in place to monitor and manage risks of outsourced IT services?

If you have any queries, talk to your engagement manager to see how Grant Thornton could help.

Emerging issues and developments

Local government guidance

2010/11 Whole of Government Accounts

The following reports have been published on the audited 2010/11 Whole of Government Accounts (WGA):

- Public Accounts Committee (PAC) issued its [2010/11 WGA report](#) - PAC has recommended that HM Treasury should do more to use WGA accounts to inform decision making and also drew attention to the need for the preparation and audit of WGA to be timelier.
- DCLG published an unaudited consolidated account for [English Local Government 2010/11](#) - the information is high-level, focussing on the consolidated statement of revenue and expenditure, the consolidated statement of financial position and the consolidated statement of changes in taxpayers' equity. There is no breakdown of line items and no comment on cash flows, commitments and off balance sheet liabilities. However, the document does provide links to more detailed local government finance statistics.

Challenge question:

- Has your Director of Resources considered these reports and any lessons for the authority?
- Has your Director of Resources produced a robust and adequately resourced timetable for the production and submission of 2012/13 WGA returns?

Governance statements

The National Audit Office has published ['Fact Sheet: Governance Statements: good practice observations from our audits'](#) providing insight and commentary on the first year of Governance Statement reporting observations on good practice “challenge questions” for those whose role it is to oversee and scrutinise an organisation’s Governance Statement.

Challenge questions:

- How do you plan to make your Annual Governance Statement be more transparent and relevant to your authority?
- Have you used the challenge questions in the fact sheet to help inform your review of the Annual Governance Statement?

Emerging issues and developments

Local government guidance

Openness and transparency on personal interests - A guide for councillors

In March, DCLG published ['Openness and transparency on personal interests - A guide for councillors'](#).

This guide provides guidance to councillors about how to be open and transparent about their personal interests now that new standards arrangements have been introduced by the Localism Act 2011.

Challenge question:

- What has your authority done to improve awareness of openness and transparency requirements for councillors?



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WYRE FOREST DISTRICT COUNCIL

AUDIT COMMITTEE
24th JUNE 2013

Internal Audit Monitoring Report
Quarter Ended 31st March 2013

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME:	Stronger Communities
CORPORATE PLAN PRIORITY:	Delivering Together with Less
CABINET MEMBER:	Councillor N J Desmond
DIRECTOR:	S151 Officer/Director of Resources
CONTACT OFFICER:	Cheryl Ellerton, Extension 2116 cheryl.ellerton@wyreforestdc.gov.uk
APPENDICES:	Appendix 1 - Internal Audit Monitoring Report for the Quarter ended 31 st March 2013

1. PURPOSE OF REPORT

- 1.1 To inform members of the Internal Audit Monitoring Report for the Quarter ended 31st March 2013, attached as Appendix 1.

2. RECOMMENDATIONS

The Audit Committee is asked to CONSIDER:

- 2.1 The Internal Audit Monitoring Report for the Quarter ended 31st March 2013 as detailed in the Appendix to the report.**

3. BACKGROUND

- 3.1 The management of the authority are obliged to safeguard public funds and use them in a way which provides value for money and thereby best value. An effective internal audit service is vital in helping management to meet these important duties as it is an independent appraisal function for the review of the entire internal control system.
- 3.2 The Audit Committee approved the operational Annual Audit plan 2012~13 in March 2012 as part of the 3 year 2012~15 Strategic Audit Plan. This plan takes into account changes in priorities or risk in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 3.3 The Internal Audit Strategic Plan 2012~15 approved in March 2012 provides the overall direction for the Internal Audit service working in partnership with the External Auditors to minimise the overall audit cost to the authority.

3.4 Actual performance of the Internal Audit service is monitored against the Audit Plan each quarter during the year by way of this quarterly monitoring report to the Audit Committee, Corporate Management Team and to the External Auditors.

3.5 The Report attached as an Appendix contains 4 sections which are:

- Section 1 **Final** internal audit reports issued in the quarter
- Section 2 **Follow up** reviews undertaken in the quarter
Incorporating Recommendations in progress
- Section 3 **Draft** internal audit reports issued in the quarter
- Section 4 **Work In Progress**
- Section 5 **Performance Statistics**
- Section 6 Final Audit Reports issued in the period 1st April 2012 to 31st December 2012

A number of other reviews are currently in progress. To support the work in progress, a summary of **action plans** issued is detailed within section 4 for Member information. In addition to the managed audits, within the audit plan resources are allocated to **consultancy and advice** for which a summary of the requests dealt with by Internal Audit is included within the performance statistics.

3.6 The audit reports referred to in the Appendix are those where testing has been undertaken on an element of the internal control environment. It should be noted that the findings are on an **exception basis** i.e. reported if an internal control was found not to be operating satisfactorily, so giving rise to a control weakness and therefore an area for improvement. The findings of audit reviews in the report do not list those internal controls which were found to be operating satisfactorily. This approach has been adopted to enable the output of the review to focus on those areas considered by Internal Audit to require management's attention.

3.7 The Internal Audit review process is published on the Council's Intranet. This details the process whereby **Draft** internal audit reports arising from audits are forwarded to Chief Officers and nominated lead managers for agreement to recommendations and timescales for implementation prior to the preparation of **Final** internal audit reports.

3.8 The approved Terms of Reference for Internal Audit require that the Section 151 Officer prepares an annual opinion on the Council's internal control environment. This is a personal opinion, which takes into account the findings of the audit reviews that have been undertaken relating to the financial year in question. These findings are taken together and considered in order to give an overall view of the Council's Internal Control environment, which is reported to the June meeting of the Audit Committee.

3.9 The terminology within the reports presented to members is in line with that used by many other Internal Audit Teams of public authorities, private and public companies and external auditors.

3.10 Every organisation operates in the real world and errors/omissions/system weaknesses (manual or computerised) are inevitable. Management have to manage these known risks through the use of internal controls.

- 3.11 It may be that an operational decision has been taken by management to accept the risk of the non operation of an internal control. Where the area is being reviewed by Internal Audit in such an instance the weakness and any associated recommendation would be reported. Management would record within the service's risk register the processes in place to mitigate the risk.
- 3.12 The Corporate Management Team have confirmed that action would be taken immediately should an internal audit review report a significant weakness which could lead to a potential serious issue.

4. KEY ISSUES

- 4.1 Internal Audit make recommendations to management on potential improvements to the internal control environment of the system under review. It is management's responsibility to take the necessary action to implement recommendations as agreed in the final internal audit report.
- 4.2 The Quarterly monitoring report contains details of internal audit reports issued in the quarter together with follow up reviews. The format of internal audit reports has been adopted to enable management and members to focus on those areas that Internal Audit wishes to draw to its attention. The success or otherwise of a service is reported via other dimensions of the Council's Performance Management Framework including for example the monitoring of the Performance Indicators, Performance Review Clinics and the progress of the Council against its agreed implementation plan arising from its Comprehensive Performance Assessment review.
- 4.3 The Internal Audit Team operate in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. Procedures are monitored to ensure that the Internal Audit Team procedures remain compliant.
- 4.4 The approved Terms of Reference for Internal Audit require that the Section 151 Officer prepares an annual opinion on the Council's internal control environment. This is a personal opinion, which takes into account the findings of the audit reviews that have been undertaken relating to the financial year in question. These findings are taken together and considered in order to give an overall view of the Council's Internal Control environment.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising from this report. There may however be financial implications if the audit recommendations made within audit reports are not implemented on a timely basis.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 The Accounts and Audit (England) Regulations 2011 section 6(1) require that:

“A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control.”

7. RISK MANAGEMENT

- 7.1 In order to manage risks internal controls are used to mitigate and manage the identified risks to an acceptable level. Any weakness in the operation of internal controls therefore impacts directly on the management of risk.
- 7.2 Risk management issues could arise when weaknesses in internal controls are identified during the audit review process and management delay or defer implementation of the recommendations made.
- 7.3 The Internal Audit service is one element of the Council's assurance/internal control framework.

8. EQUALITY IMPACT NEEDS ASSESSMENT

- 8.1 An Equality Impact Assessment screening has been undertaken and it is considered that there are no discernable impacts on the nine protected characteristics.

9. CONCLUSION

- 9.1 The work undertaken by the Internal Audit Team in the quarter ended 31st March 2013 is reported within Appendix 1. This information is presented to members in accordance with the Terms of Reference for the Internal Audit Team.
- 9.2 The work undertaken by the Internal Audit Team has complied with the requirements of the CIPFA Code of Practice for Internal Audit in Local government.

10. CONSULTEES

- 10.1 Corporate Management Team.

11. BACKGROUND PAPERS

- 11.1 12th March 2012 ~ Audit Committee ~ Strategic Audit Plan 2012~2015.
29th June 2011 ~ Audit Committee ~ Internal Audit Terms of Reference ~ Update.
Accounts and Audit (England) Regulations 2011 (SI 817).

INTERNAL AUDIT

INTERNAL AUDIT MONITORING REPORT

**QUARTER ENDED
31st MARCH 2013**

INTERNAL AUDIT
QUARTERLY AUDIT REPORT
QUARTER ENDED 31ST MARCH 2013

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SECTION 6 Final Audit Reports Issued in the Period 1 st April 2012~31 st December 2012 (Key Systems)	45

Joanne Wagstaffe
SECTION 151 OFFICER

23rd May 2013

SECTION 1 FINAL AUDIT REPORTS ISSUED IN THE QUARTER ENDED 31 ST MARCH 2013		
	ASSURANCE	PAGE
CORPORATE		
Key Systems		
Monitoring of Contract for Construction of Wyre Forest House	N/A	-
COMMUNITY WELL-BEING & ENVIRONMENT		
Key Systems		
Cash To Bank (Worcestershire HUB) 2012~13	F	-
RESOURCES		
Key Systems		
Cash To Bank (Bank Reconciliation) 2012~13	F	-
Cash To Bank (Miscellaneous Income & Housing Act Advances) 2012~13	S	30
Council Tax (Compliance) 2012~13	F	-
Council Tax (Gross Debit Reconciliation/Reconciliations) 2012~13	S	31
Housing and Council Tax Benefits (Compliance) 2012~13	S	32
Housing and Council Tax Benefits (Reconciliations ~ Accountancy) 2012~13	S	33
Housing and Council Tax Benefits (Reconciliations ~ Benefits) 2012~13	S	35
ICT Governance ~ Internet, Website & Email Security (Anti-Virus & Spyware)	F	-
ICT Governance ~ Internet, Website & Email Security (Council Cookies)	F	-
ICT Governance ~ Internet, Website & Email Security (Penetration Testing)	S	36
NNDR (Compliance) 2012~13	F	-
NNDR (Gross Debit Reconciliation/Reconciliations) 2012~13	F	-
Treasury Management 2012~13	F	-

KEY		
Assurance Level	Description of Assurance Level	What is reported in the Quarterly Audit Report
U = Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations ~ provides little or no assurance. A significant internal control is one which is key to the overall framework of controls.	Summary page of Audit Report and significant findings and associated recommendations.
L = Limited	Significant lapses/breakdown in individual controls ~ at least on significant weakness ~ provides partial assurance.	Summary page of Audit Report and significant findings and associated recommendations.
S = Some	Sufficient framework of controls but some weaknesses identified ~ provides adequate assurance.	Summary page of Audit Report together with any significant findings and associated recommendations where appropriate.
F = Full	Robust framework of controls, any recommendations are advisory ~ provides substantial assurance.	The title of the review undertaken is reported.

AUDIT REPORT TITLE: Cash Income Reconciliation (Housing Act Advances & Miscellaneous Income) 2012-13	DRAFT REPORT DATE ISSUED: 15th January 2013 (Quarter to 31.12.12)	SERVICE: Resources Directorate (Accountancy)
BUDGET: Various	FINAL REPORT ISSUED: 6th March 2013	RESPONSE RECEIVED: 6th March 2013

Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

Overview:

This Audit forms part of the annual reviews undertaken to assist the Council's External Auditors in their annual audit. The review forms part of the Cash to Bank compliance testing and concentrated on the subsidiary systems of Miscellaneous Income (Holding Codes) and Housing Act Advances repayments both of which stand alone from other income streams reported under their respective system reviews.

Housing Act Advances

The August 2012 income for Housing Act Advances was selected for compliance testing to ensure all repayments had been receipted and reconciled against the mortgagees respective Account, recorded within the Financial Records and independently reconciled to the Council's Bank Account. No errors were found.

Verification was also undertaken on the half yearly outstanding mortgage balances including the interest calculation as at 30th September 2012. It was identified that of the 12 accounts, the brought forward balances as at 1st April 2012 had been incorrectly recorded on the payment summary spreadsheet for 5 mortgagees. In addition, the payments relating to September for two Mortgagees accounts had not been transferred on the summary spreadsheet for all outstanding mortgages. Both discrepancies resulted in formula errors when calculating the ½ yearly interest. The individual mortgage account records required updating following the move to Wyre Forest House. The review also identified that up to date insurance details were required for 11 of the 12 mortgages. Internal Audit has worked with the Principal Accountant to ensure that the discrepancies were addressed prior to the annual statements being issued. Following the move to Wyre Forest House, mortgagees account details were stored on an opened shelf in the Accountancy Section office and this has been raised with the Principal Accountant for action to ensure all personal data is held securely.

Miscellaneous Income

The detailed testing of miscellaneous income posted to holding codes during the month of August was also undertaken; the transaction lists were examined to ensure that all income receipted against a holding code had been correctly and promptly reallocated to the Agresso Financial Management System. No errors were found. However an additional recommendation has been included within this review to ensure that the narrative inserted on to the Radius Cash Receipting system is transferred in the Agresso Financial Management system to assist those employees undertaking regular budget monitoring of income.

Conclusion:

On the basis of the work undertaken the review has concluded that the systems in operation for the processing of Miscellaneous Income payments into the Council's Agresso Financial Management System are working effectively but could be enhanced to realise further efficiencies. The processing of Housing Act Advance payments into the Council's Agresso Financial Management System is also working effectively however, immediate improvements are required in manual processes outside the Financial Management System. The errors identified during the review although not material, enable statements to be provided to Mortgagees which should correctly represent the financial position of both parties at all times to protect the Council's reputation and the integrity of the data., Following the work undertaken by the Principal Accountant and the Principal Accountancy Assistant all discrepancies have been corrected and internal controls have been strengthened and risks addressed, therefore the overall conclusion is that **SOME** assurance can be given on the internal controls in place for the reconciliation of all Housing Act Advance to the mortgagee's accounts.

AUDIT REPORT TITLE: Council Tax Reconciliation 2012/2013	ACTION PLAN DATE OF ISSUE: 24 th April 2012 (Gross Debit)/19 th December 2012	SERVICE: Resources (Revenues)
BUDGET £60,049,808 Gross Debit 2012/2013	DRAFT REPORT DATE ISSUED: 4 th March 2013	RESPONSE DATE: 6 th March 2013
REF: A270/R310	FINAL REPORT DATE ISSUED: 7 th March 2013	

Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

Overview

This Audit forms part of the annual assurance reviews undertaken as part of the annual internal audit plan 2012~13. The review was undertaken to ensure that there are regular reconciliations between the Council Tax (Civica – Open Revenues) system with the Agresso Financial Management System (FMS), the Radius Cash Receipting System, the Valuation Office Property Listings and that the Gross Debit reconciliation for 2012/2013 had been promptly undertaken. The review also concentrated on ensuring that there are adequate controls over the processes in place for the monitoring of Council Tax arrears & exceptions.

A detailed examination of the June and September 2012 reconciliations between the Civica (Council Tax system) , the Agresso (Financial Management System) and Radius (Cash Receipting) systems was carried out to ensure the accuracy of the information recorded. The reconciliations were signed as completed in November 2012 and January 2013 respectively. The delay was due to differences when reconciling the cash received; internet payments and standing orders which if not reconciled promptly could lead to individual tax payer accounts with outstanding balances and possible recovery action. Following assistance from the Internal Audit Team these have now been addressed.

At the time of completing the June reconciliation, the Principal Revenues Officer identified a WFDC Direct Debit payment which could not be traced on the Civica system. The payment was raised with the Council's bankers. This appeared to be a fraudulent payment request raised in the name of WFDC. An indemnity claim was raised against the transaction and actioned by the Council's bankers. There was no loss of income to the Council on this occasion however this highlights the need for prompt reconciliations to enable action to be taken to minimise any further fraudulent activity which has been recognised by the Revenues & Benefits Manager and the Principal Revenues Officer.

Four Valuation Office reconciliations were assessed for May, July, September and December 2012; these reconciliations were found to have been undertaken in a timely manner and each had been independently reviewed with supporting documentation for all entries. The Gross Debit reconciliation for 2012/2013 had been appropriately completed and balanced prior to the start of the financial year. The parameters had been independently reviewed as part of the Gross Debit Calculation following Council approval. Arrears monitoring and exception reports had been regularly reviewed.

Following the initial phase of testing which incorporated the gross debit calculation, June cash collection reconciliation and the Valuation Office listings up to and including September, an action plan was issued to the Revenues and Benefits Manager. The aim of the action plan being to advise of any matters arising during the period of testing in order that they can be addressed promptly and remedial action taken where appropriate. Those observations arising from the initial testing were acknowledged with supporting evidence provided to the Internal Audit Team and are detailed below for completeness. Following the final phase of testing there were no further matters arising.

Conclusion:

On the basis of the work undertaken, the review has concluded that the systems in operation for the reconciliation and monitoring of Council Tax are now working effectively. Following the work undertaken by the Principal Revenues Officer and Principal Accountant internal controls have been strengthened, therefore the overall conclusion is that **SOME** assurance can be given on the internal control processes in place for the reconciliation of Council Tax. It should be noted that currently the Revenues Section are undergoing a process of restructure, which will involve process changes which will have major effects on the way the section operates.

AUDIT REPORT TITLE: Benefits Compliance Testing 2012/13	ACTION PLANS ISSUED 1 st November 2012 / 5 th December 2012	SERVICE: Resources Directorate (Revenues & Benefits)
BUDGET: Estimated Benefit Payments 12/13 £41,608,835	DRAFT REPORT DATE ISSUED: 7th February 2013	RESPONSE DATE: 11th March 2013
REF: A280 BENEFIT PAYMENTS	FINAL REPORT DATE ISSUED: 13th March 2013	

Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

Overview

This Audit forms part of the annual assurance reviews undertaken as part of the annual internal audit plan 2012~13. . The review was carried out to ensure that benefits payments for both rent allowance claims and council tax benefit are assessed appropriately and calculated accurately. Overpayment accounts were also tested to ensure that calculations were accurate and recorded in the Subsidy Report.

A random sample of accounts with Housing Benefit and Council Tax Benefit entitlement was selected and examined in detail to ensure there is adequate proof of income and / or valid Department of Works and Pensions notification; adequate proof of capital and any income from capital is correctly calculated; that the level of disregards against income, non-dependant income and allowances and premiums have been assessed and applied correctly. There is a signed benefit application form and evidence of proof of identity. Additional testing for Housing benefit included verifying the benefit is based on the correct eligible rent. Additional testing for Council Tax Benefit included confirming that the Civica Council Tax records were appropriately updated, that the property is not void and the claimants are the liable people to pay Council Tax. A random sample of accounts with a Housing Benefit overpayment and Council Tax Benefit overpayment was selected and examined in detail to ensure that the overpayment was appropriately assessed. The detailed testing included verifying that the original benefit assessment was calculated accurately, the revised assessment was calculated accurately and the overpayment was correctly stated in the subsidy and overpayment reports produced by the Civica (Benefits) computer system, and being recovered in accordance with legislation.

Detailed compliance testing to cover a full calendar year was undertaken at quarterly intervals, and incorporated “top-up” testing from January ~ March 2012. Following each phase of testing Action Plans were issued to the Revenues & Benefits Manager.. Any matters arising were dealt with promptly, in some instances resulting in the claim being reassessed. Within the final quarter testing for Council Tax benefit it was found that for one claimant a DWP benefit had an incorrect start date which resulted in a small underpayment of Council Tax and Housing benefits for which there is a recommendation below.

The audit also reviewed the 4% Management checks which had been suspended in support of detailed subsidy checking by the Benefits Team for the close of the 2011~12 DWP claim and with staff resources reallocated to the re-design team under the on-going transformation. Following assistance from the Internal Audit Team, these checks were reintroduced in October 2012. With the agreement of the S151 Officer, the checks undertaken by Internal Audit as part of this annual audit were acknowledged as a contribution towards the annual Management checks. Additional work has been agreed for the final quarter of 2012~13 covering claims from April-September to support the Revenues & Benefits Team and enabling Internal Audit to take assurance from on the Management Checks completed by the Benefits Team for the final quarter of 2012~13..

Conclusion

On the basis of the work undertaken, the review has concluded that within the procedures in operation for assessing entitlement to and payment of both Housing and Council Tax Benefits along with the recovery of overpayments there are opportunities for improvement. However the matters arising, detailed below for completeness, are for a small element of the overall Benefits assessment process and therefore reasonable assurance can be given that other elements of the system are well managed. In view of the prompt action taken by the Revenues and Benefits Manager, the overall conclusion therefore, is that **SOME** assurance can be given in that the internal controls in place for the assessment of Housing and Council Tax Benefits are operating effectively within this key system.

AUDIT REPORT TITLE: Housing Benefits Reconciliation 2012-13 BUDGET: £41,608,835 Estimated Benefit Payments 2012-13 REF: A280	DRAFT REPORT DATE ISSUED: 19th March 2013 FINAL REPORT ISSUED: 18th April 2013 (For Quarter 31.03.13)	SERVICE: Resources Directorate– Accountancy RESPONSE RECEIVED: 12th April 2013
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Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

Overview

This Audit forms part of the annual assurance reviews undertaken as part of the 2012~13 annual audit plan. The review was undertaken to ensure that there are regular reconciliations of the Benefits paid via the Civica IBS system to the Agresso Financial Management System and Benefit Debtors (overpayments) to the Agresso Financial Management System & Radius Cash Receipting System. The review also included a review of un-presented cheques and committee reporting in respect of outstanding Housing Benefit Overpayments. This report covers those processes undertaken by the Accountancy Team only. The reconciliation procedures completed by the Control Team within the Revenues & Benefits Team will be reported under separate cover.

The detailed assessment of the processes in place for the reconciliation of Benefit payments incorporating the procedures within the ICT Operations Section, the Corporate Support Services, Accountancy and Benefits Sections, established that payment processing was accurate and appropriately reconciled. It was observed however, that the reconciliation of Benefit Debtor Accounts (overpayments) to the Agresso Financial Management System was not being completed in a timely manner, this was attributed to initial reconciling discrepancies arising from customers selecting the incorrect option when making their payments for a invoice via the self serve option of either the Automated Telephone Payment System and/or the KIOSK. . Internal Audit have worked with the ICT Team in an attempt to resolve this and ensure customers select the correct option for the payment of an Housing Benefit overpayment invoices to enable accurate and timely reconciliations Currently the Accountancy team are working to bring all reconciliations up to date Working with the Benefits, Accountancy & ICT teams Internal Audit have identified areas where small system changes supported by better communication channels should lead to an improvement in processing and reconciliation procedures. The benefits of these changes however will not be realised until February 2013 at the earliest once the reconciliations undertaken by the Accountancy Team have been brought up to date and re-evaluated to ensure they are achieving the required objectives. .

Conclusion

On the basis of the work undertaken, the review has concluded that there are opportunities for improvement within the identification and communication of discrepancies during the reconciliation process in particular between the Accountancy Team and Benefits Control Team. These recommendations may only form a small part of the Benefits process overall but without timely reconciliations both the Agresso Financial Management System and the Civica Benefits system contain inaccurate payment information.

At the time of the audit review, only **LIMITED** assurance could be given on the controls in place for the on-going reconciliation of the Agresso Financial Management System to the Civica Benefits, however work has been progressed and Internal Audit can now confirm that the Accountancy reconciliation is up to date as at February 2013, raising the assurance to **SOME**. With the proposed changes to current working practices from April 2013 Internal Audit will be working closely with the Accountancy and Benefit teams during May 2013 to review existing reconciliation processes and to recognise areas where improvements can be realised.

	OBSERVATIONS	CONTROL RISK	RECOMMENDATIONS	MANAGEMENT COMMENTS
SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS				
1	<p>As at January 2013 the Accountancy reconciliations to include benefit overpayments to the Cash Receipting (Radius) System and the Civica (IBS) Debtors accounts, were not up to date. Due to initial balancing difficulties within the Benefits Control Team, the Accountancy Team had not been able to undertake the balancing process. The reconciliations have been completed for April, May and June 2012 and the Accountancy team are currently working to complete the outstanding reconciliations up to date working closely with the Benefit Teams.</p> <p>Internal Audit identified issues with C&D amendments and month end income posting. The number of C&D amendments being processed has increased with the introduction of the Kiosks and the use of internet & telephone payments (ie: Customers selecting incorrect payment options therefore paying into an incorrect general income fund) this has led to reconciliation issues in both the Benefits & Accountancy Teams.</p> <p>Internal Audit have worked closely with both Teams to improve communication, making small changes to working practices in a bid to improve the reconciliation processes.</p> <p><u>Additional Audit Observation:</u> <i>As at 1st March 2013, the reconciliations had been completed by mid February and sighted by Internal Audit for July, August and September 2012.</i> <i>As at 12th March 2013, the reconciliations had been completed and sighted by Internal Audit for October, November, December 2012 and January 2013.</i></p>	<p>Income may not be appropriately accounted for</p> <p>Misappropriation of income may take place</p> <p>Inaccuracies and discrepancies may go undetected</p>	<p>Reconciliations are undertaken on a monthly basis with any balancing differences shown separately and highlighted.</p> <p>Any balancing discrepancies should immediately be communicated to the Benefits Overpayment team to ensure prompt identification can be made and balancing achieved.</p> <p><u>Management Comments: Principal Accountant</u> February reconciliation completed. Awaiting March figures.</p>	<p>Responsible Manager: Principal Accountant</p> <p>Recommendation to be actioned and completed by (Date): May 2013</p>

AUDIT REPORT TITLE: Housing Benefits Reconciliation 2012-13	ACTION PLAN: 4TH December 2012	SERVICE: Resources Directorate ~Housing Benefits
BUDGET: Estimated Benefit Payments 12~13 £41,608,835	DRAFT REPORT DATE ISSUED: 7th February 2013	RESPONSE RECEIVED: 11th March 2013
REF: A280	FINAL REPORT DATE ISSUED: 13th March 2013	

Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

Overview

This Audit forms part of the annual assurance reviews undertaken as part of the annual internal audit plan 2012~13. The review was undertaken to ensure that the Benefit payments raised via the Civica System and that Benefits Debtors overpayments are reconciled the Agresso Financial Management System & Radius Cash Receiving System and that Benefit Arrears are monitored. The audit review included a review of committee reporting, the preparation of the initial and mid-term claims, data matching and a sample of fraud cases. This report covers those processes undertaken by the Benefits team only. The reconciliation procedures completed by the Accountancy Team will be reported under separate cover.

From the detailed assessment of the Benefits reconciliation processes in place, it was identified that minor errors had occurred throughout the year. The monthly reconciliations had been signed off each month with these errors shown as a difference to be investigated. These errors were duly addressed during the audit review and the appropriate corrections made, system changes have since been implemented with Internal Audit assistance which should improved the reconciliation processes between the Benefits and Accountancy systems. The Arrears monitoring process is undertaken regularly and actions taken evidenced; a review of outstanding old claims identified several claims that remained unprocessed with no explanation as to why. The data matching exercises are undertaken in line with DWP requirements and form part of the Audit Commissions National Fraud Initiative; currently due to changes in working practices fraud case reviews have been minimized. Examination of the initial & mid-term claims confirmed they had been completed and returned within the required time frame and all supporting evidence had been retained on file.

Conclusion

On the basis of the work undertaken, the review has concluded that the systems in place, within the Benefits team, for the reconciliation of the Civica (IBS) system are now working effectively however these could be enhanced with the implementation of the following recommendations detailed below assisted by improved communications with the Accountancy team at month end. Additional opportunities for improvement could be achieved with the re-instatement of review processes for fraud cases.

The overall conclusion therefore, is that **SOME** assurance can be given that the internal controls in place within the system for the reconciliation of the Benefits Civica system to other Council Systems for payments to claimants and/or recovery of overpaid benefits are operating effectively in this key system. It should be noted that currently the Benefits Section are undergoing a process of restructure, which will involve process changes and have major effects on the way the section operates.

AUDIT REPORT TITLE: Internet, Website & E-mail Security review 2012-13 (Penetration Testing) BUDGET: N/A REF:	ACTION PLAN: N/A DRAFT REPORT DATE ISSUED: N/A FINAL REPORT ISSUED: 15th April 2013 (For Quarter 31.03.13)	SERVICE: Resources Directorate ~ ICT RESPONSE RECEIVED: N/A
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Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

Overview:

This audit forms part of the annual reviews undertaken as part of the 2012~13 Annual Audit Plan and has been completed as part of the Computer Audit programme. For ease of reporting the Internet, Website and E-mail security audit has been split into specific technical areas. This report covers the penetration testing allowing for the identification of vulnerabilities identified as part of an Internal Health Check, External Health Check and Web site Health Check

In April 2012 the Council appointed external consultants to undertake penetration testing on the Councils systems. The consultants undertook health checks on the Internal & External systems and the Website. Their reports identified various levels of vulnerabilities within each of the three areas tested with recommendations for mitigating the risks posed from each. The Critical vulnerabilities were resolved immediately following the receipt of the reports from the external consultants. It should be noted, however, that the move to Wyre Forest House led to delays in the other vulnerabilities being promptly addressed. As advised during the audit review, since the penetration testing, significant changes have occurred to the IT infrastructures and servers on the network due in part to the migration to the new HQ, as a consequence, following the completion of a plan of work in respect of the remaining vulnerabilities, further Internal & External health checks are due to be undertaken during April 2013.

Conclusion:

This report specifically concentrated on a single area within the remit for the Internet, Website and Email security audit review. At the time of the review, prompt action had been taken to address the critical and high vulnerabilities identified from the Health Check for which **FULL** assurance could be given in that the Council's IT systems could not be penetrated. However, following the migration/move to Wyre Forest House, further health checks are required. The overall conclusion at this time, therefore, is that **SOME** assurance can be given on the controls in place for Internet, Website & E-mail (**Penetration Testing**) until such time as further Health Checks are undertaken and any vulnerabilities as identified are addressed for which an Advisory recommendation has been included as detailed below.

SECTION 2

Quarter Report to the 31st March 2013

Summaries of Follow up Reviews undertaken in the Quarter

KEY	
Assurance Levels	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.

TITLE	SYSTEM TYPE <small>K=Key S=Subsidiary</small>	ASSURANCE LEVEL OF FINAL REPORT	IMPLEMENTATION STAGE PER CHIEF OFFICER AND/OR RESPONSIBLE MANAGER AT TIME OF FOLLOW UP REVIEW				Page No.
			No of Recommendations	No of Recommendations Implemented	No of Significant Recommendations	No of Recommendations Implemented	
Community Assets & Localism							
Human Resources ~ Establishment (Staff Records Forms) 2011~12	K	S	4	4	0	0	~

Quarter Report to the 31st March 2013
Summary Of Open Audit Recommendations At 31st March 2013

KEY	
Assurance Levels	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.

TITLE	SYSTEM TYPE K=Key S=Subsidiary	ASSURANCE LEVEL OF FINAL REPORT	IMPLEMENTATION STAGE PER CHIEF OFFICER AND/OR RESPONSIBLE MANAGER AT TIME OF FOLLOW UP REVIEW						Page No.
			Other Recommendations			Significant Recommendations			
			Open @ 01.01.13	Implemented In Quarter	Open @ 31.03.13	Open @ 01.01.13	Implemented In Quarter	Open @ 31.03.13	
CORPORATE									
Debtors 2010~11	K	S	1	1	0	-	-	-	-
COMMUNITY ASSETS & LOCALISM									
Human Resources ~ Establishment (Annual Reconciliation) 2011~12	K	L	0	0	0	2	0	2 ^{\$}	17
Management of Town & Civic Halls 2011~12	K	L*	1	1	0	-	-	-	-
Trading Estates & Property Debts 2011~12	K	S	1	1	0	-	-	-	-
RESOURCES									
Agresso Computer Application 2010~11	K	S	2	1	1	-	-	-	-
Benefits Reconciliations (Accountancy) 2010~11	K	S	1	0	1 [^]	-	-	-	-
Civica Computer Applications 2010~11	K	S	3	1	2	-	-	-	-
Council Tax (Reconciliations) 2011~12	K	S	1	0	1 [^]	-	-	-	~
Creditors (Reconciliations) 2011~12	K	S	1	1	0	-	-	-	-
TOTAL RECOMMENDATIONS			11	6	5	2	0	2	

*All recommendations from 2011~12 Audit Review Implemented: Level of Assurance raised to SOME

[^]Open Recommendations taken forward into 2012~13 Annual Assurance Reviews

^{\$} Actioned and Sighted by Internal Audit ~ May 2013

Wyre Forest District Council
Internal Audit
Follow Up Review
Payroll 2011-12 – Establishment - Database (WCC) (Limited)
Interim Report Issued 23rd January 2012/Final Report Issued 29th August 2012
Follow Up Review Issued 26th November 2012
Progress Report February 2013

<u>Implementation Stages</u>
1. Not yet implemented
2. Complete
3. In Process

No.	Observation/Recommendation	Agreed Imp. Date	Responsible Officer	Updated Response	Imp. Stage
SIGNIFICANT RECOMMENDATIONS					
1	<p><u>Observation</u> A change to the current practice is in the process of being implemented (HR21 Self Serve a module of the CHRIS21 (Comprehensive Human Resources Integrated Solution) the HR and Payroll Computer Application; all establishment records (including starter, leaver and transfer records) will be maintained on the CHRIS 21 computer system by the Worcestershire County Council HR team, these records will directly update Redditch Borough Council's CHRIS21 computer payroll records.</p> <p>As both processes are directly linked to one another it is not clear in future how these records can be independently managed and reconciled.</p> <p><u>Recommendation</u> Prior to the HR team taking on responsibility for updating all CHRIS 21 establishment and employee information a final check is undertaken to ensure all records are accurate and current. This check is agreed by all Directorates and evidence appropriately with signatures.</p> <p><u>Management Comments HR Manager 02.02.12</u> The annual check will be carried out on 31st March 2012. A current review of the process is being undertaken by HR Advisor and Management Accountant. From April 2012 HR will cease maintaining a manual spreadsheet which is open to human error.</p> <p>Once the new processes for setting up employees and posts are implemented, Worcestershire County Council's Human Resource team seeks independent verification of the accuracy of these records. Firstly against Accountancy budgetary records and secondly at year end directly from the Corporate Management Team.</p> <p>CHRIS 21 system roles are amended to ensure that only the Worcestershire County Council Human Resources team can update post and employee records onto the system and that Redditch Borough Council's payroll team no longer have this responsibility.</p>	31.03.12	HR Manager	<p><u>HR Advisor ~ February 2013</u> The HR Advisor now has the appropriate access rights to CHRIS to enable the progression of HR from 1st April 2013 to be able to input all Staff Record Forms (Starter/Leaver/Transfer) into the CHRIS system by the HR Advisor. This will enable the HR Team to update and maintain accurate Establishment database. The inputting of the Staff Record Forms will create the live record for Redditch Borough Council Payroll Team to enable them to process the salary payments accordingly.</p>	3
	This will be carried out annually at year end	HR Manager			
	01.04.12	HR Manager in consultation with Financial Services Manager			

No.	Observation/Recommendation	Agreed Imp. Date	Responsible Officer	Updated Response	Imp. Stage
	<p>Management Comments HR Manager 02.02.12 Unclear of timings – HR need to be granted this access, hopefully this will be completed by 1st April 2012. Access requested of Redditch Payroll Team 9th/13th July 2012.</p>				
2	<p>Observation As part of the year end testing for 2011~12 HR establishment lists were reconciled against a CHRIS payroll report listing all ‘active’ employee records.</p> <p>End of Year Testing Evidence of manual establishment lists maintained by HR and reconciled to the CHRIS21 (Payroll) Database as at 31st March 2012 were sighted by Internal Audit. Economic, Prosperity & Place ~ Signed by Director 13.04.12 Resources ~ Signed by Director 21.05.12 Community Assets & Localism ~ Signed by Director 30.03.12 Chief Executive Unit ~ Signed by Director 04.04.12.</p> <p>There were some discrepancies between the manual records and the payroll database, in that post numbers allocated to individuals differed between the two records. These were raised with the HR Team and resolved.</p> <p>The manual establishment record for the Community Well Being & Environment Directorate was not reconciled and made available however until July 2012 (three months after the year end).</p> <p>From examination of the HR establishment listing, several discrepancies were identified which would appear to be due to the employees transferring Directorates during the corporate restructure of March 2012. As a result whilst employees were in posts the establishment records had not been updated to reflect the changes. The HR Team were advised of the discrepancies identified by Internal Audit for action.</p> <p>At the time of the audit review It was not clear how HR would undertake independent establishment checks in future. As part of the Budgetary process, the Accountancy Section undertake an annual establishment check which will be agreed by all Directors, this could be made available to the HR Section for their information and independent verification.</p> <p>Recommendation</p> <p>The HR Section completes accurate establishment records as at 1st April 2012, records are then independently maintained of all starter and leavers. These records along with those provided by the Accountancy Section are reconciled to the CHRIS payroll records on at least and annual basis.</p>	September 2012	HR Manager	<p>HR Advisor ~ February 2013 With the knowledge that there were issues with the completion of the independent check as at 2012, the HR Advisor with the assistance of the Redditch Borough Council HR Team has now developed an establishment report from CHRIS that can be cross referenced to the establishment report held by the Accountancy Team as an independent check.</p> <p>Currently the HR Advisor is “cleansing” this data as it details posts no longer on the Establishment i.e. Posts that have transferred under TUPE arrangements. These posts are no longer active having an allocated Termination Date.</p> <p>A full independent establishment check for 2012~13 will be undertaken and signed off by HR and the Directors by 31st March 2013. This will be made available to Internal Audit</p>	3

No.	Observation/Recommendation	Agreed Imp. Date	Responsible Officer	Updated Response	Imp. Stage
	<p><u>Management Comments: Financial Services Manager-11th July 2012</u> Following the completion of the Budget Cycle for Director confirmation of Establishments, the pay data will be shared with HR as an independent verification of the Establishment held on CHRIS/HR21.</p>				

SECTION 3

Quarter Report to the 31st March 2013

DRAFT AUDIT REPORTS ISSUED IN THE QUARTER ENDED 31ST MARCH 2013		
TITLE	DATE OF ISSUE	CURRENT STATUS OF REPORT
Community Well Being & Environment Cash To Bank (Car Parks Pay & Display Income) 2012~13	05.03.2013	Response 29.05.2013/Final Issued 30.05.2013

SECTION 4

Four Action Plans have been issued to Managers during the quarter. The table below shows the status of reviews currently in progress to cover the current on ~ going testing within the 2012~13 Annual Audit Plan for which formal reports will be presented to the Audit Committee in due course.

<u>WORK IN PROGRES AS AT 31ST MARCH 2013</u>		
AUDIT REVIEW	DATE OF ISSUE Action Plan No 1	DATE OF ISSUE Action Plan No 2
<u>Resources</u>		
Debtors 2012~13	-	14.03.13
ICT Governance (PCI Compliance) 2012~13	13.02.13	-
Payroll (Compliance) 2012~13 (Redditch Borough Council)	-	18.03.13
Payroll (Compliance) 2012~13 (Wyre Forest District Council)	-	19.03.13

SECTION 5

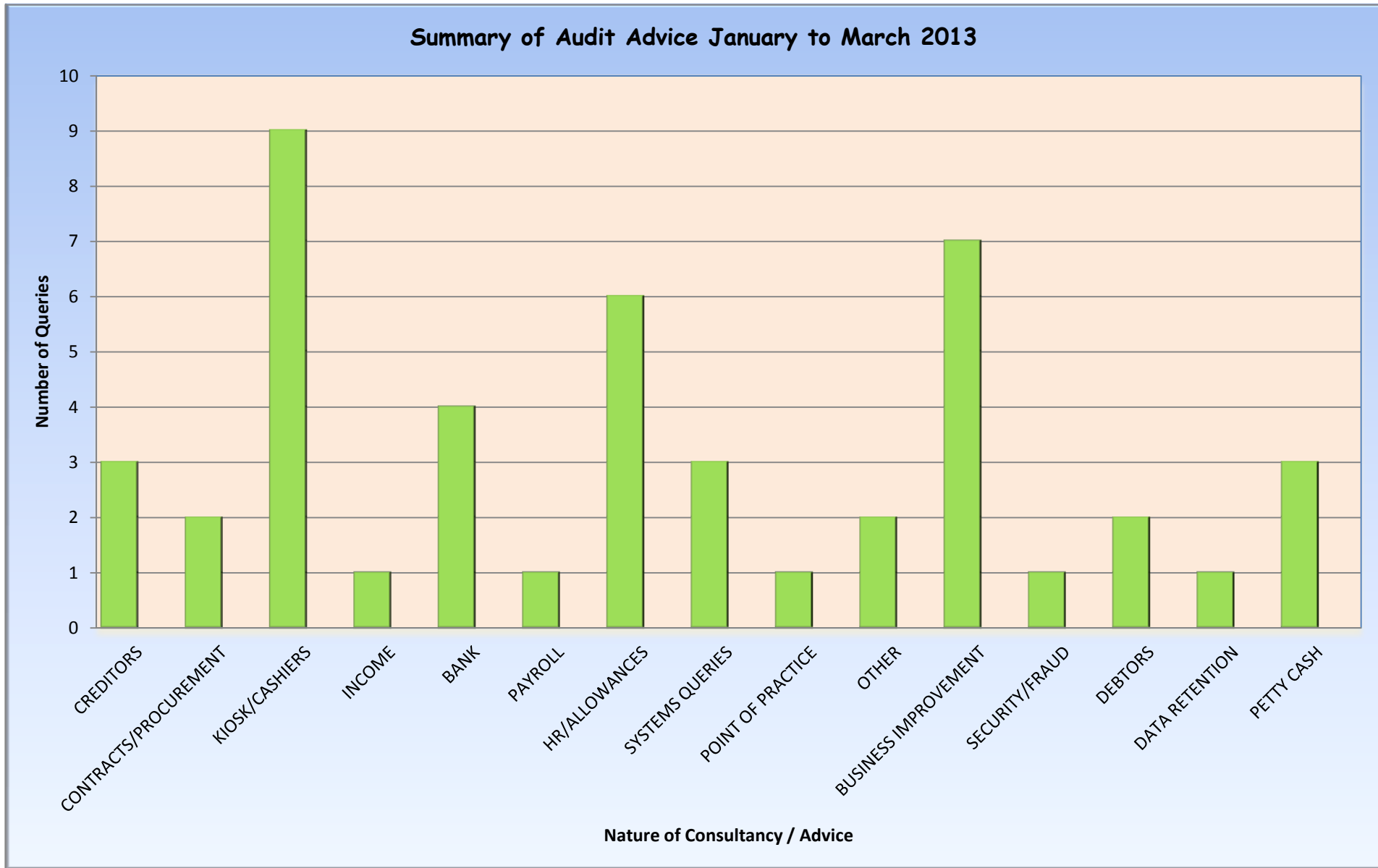
Performance Against Annual Plan For The Financial Year 2012/13**Quarter ended 31st March 2013****Year to 31st March 2013**

	<u>Quarter Actual</u>	<u>Quarter Plan</u>	<u>Quarter Actual as a % of Plan</u>		<u>Year Actual</u>	<u>Annual Plan</u>	<u>Year to Date Actual as a % of Plan</u>
	<u>Days</u>	<u>Days</u>	<u>%</u>		<u>Days</u>	<u>Days</u>	<u>%</u>
System and Probity	101.25	93.75	108.00%	System and Probity	372.50	375	99.33%
Computer Audit	7.50	12.50	60.00%	Computer Audit	24.00	50	48.00%
Contract Audit	4.50	7.50	60.00%	Contract Audit	39.00	30	130.00%
Consultancy and Advice	14.25	10.00	142.50%	Consultancy and Advice	49.00	40	122.50%
Irregularity	5.00	10.00	50.00%	Irregularity	15.00	40	37.50%
Specific Service Duties	2.75	3.75	73.33%	Specific Service Duties	22.50	15	150.00%
Sub Total	135.25	137.50	98.36%	Sub Total	522.00	550	94.91%

TARGET 95.00%

Audit Resource Statistics

For the quarter to 31st March 2013 actual against plan is 98.4 % compared to a target of **95%**. Overall for the financial year 2013/14 94.9% (target 95%) of the Annual Audit Plan has been actioned. Within the time allocated in the above table, during this fourth quarter of 2012~13 the Internal Audit Team have responded to 46 requests for advice and consultancy as categorised in the graph overleaf.



SECTION 6

KEY	
Assurance Levels	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.
FINAL AUDIT REPORTS ISSUED IN THE PERIOD 1 ST APRIL 2012 TO 31 ST DECEMBER 2012 - KEY SYSTEMS	
QUARTER ENDED 30 TH JUNE 2012	ASSURANCE
CORPORATE	
Debtors 2011~12	S
COMMUNITY WELLBEING & ENVIRONMENT	
Cash To Bank (Worcestershire HUB) 2011~12	S
RESOURCES	
Benefit Reconciliations 2011~12 (Accountancy)	S
Budgetary Control & Monitoring 2011~12	F
QUARTER ENDED 30 TH SEPTEMBER 2012	
CORPORATE	
Creditors (Compliance) 2011~12	S
COMMUNITY ASSETS & LOCALISM	
Human Resources ~ Establishment (Staff Record Forms) 2011~12	S
Human Resources ~ Establishment (Annual Reconciliation) 2011~12	L
QUARTER ENDED 31 ST DECEMBER 2012	
RESOURCES	
Employee Car Loan Scheme 2011~12/2012~13	S

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
24th JUNE 2013**Internal Audit Annual Assurance Report 2012/13**

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME:	Stronger Communities
CORPORATE PLAN PRIORITY:	Delivering Together with Less
CABINET MEMBER:	Councillor N J Desmond
DIRECTOR:	S151 Officer/Director of Resources
CONTACT OFFICERS:	Joanne Wagstaffe joanne.wagstaffe@wyreforestdc.gov.uk Cheryl Ellerton, Extension 2116 cheryl.ellerton@wyreforestdc.gov.uk
APPENDICES:	Appendix 1 - Internal Audit Annual Assurance Report – 2012/13

1. PURPOSE OF REPORT

- 1.1 To inform members of the Internal Audit Annual Assurance Report for 2012/13.

2. RECOMMENDATIONS

- 2.1 **The Audit Committee is asked to APPROVE the Internal Audit Annual Assurance report for 2012/13 attached as Appendix 1.**

3. BACKGROUND

- 3.1 It is management's responsibility to develop and maintain the internal control systems, to ensure compliance with them and for ensuring that public money is safeguarded and use them in a way which provides value for money and thereby best value. An effective Internal Audit service is vital in helping management to meet these important duties, since it is an independent appraisal function for the review of the entire internal control system. It is Internal Audit's responsibility to draw any concerns about the adequacy of the system of internal controls and its audit plans to the attention of the Audit Committee.

A definition of Internal Audit given by The Chartered Institute of Public Finance and Accountancy (CIPFA) is:

"Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resources."

- 3.2 The approved Terms of Reference for Internal Audit require that the Section 151 Officer prepare an Annual report to the Audit Committee. This report should:

- include an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- disclose any qualifications to that opinion, together with the reasons for the qualification.
- present a summary of the audit work undertaken to formulate the opinion.
- draw attention to any issues judged to be particularly relevant to the preparation of the statement on internal control.
- compare the work actually undertaken with the work that was planned.
- comment on compliance with the standards included in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom as appropriate.

3.3 The opinion is a personal opinion of the Section 151 Officer on the overall adequacy and effectiveness of the Council's internal control environment and as last year the view has been taken that there are three categories which are:

Satisfactory
Satisfactory, with reservations
Improvement required

4. KEY ISSUES

- 4.1 It is a statutory requirement that this Council has an Internal Audit service as part of its Corporate Governance framework.
- 4.2 An Annual Governance Statement is required to be published with the Council's Annual Statement of Accounts which is required to be signed by the Leader of the Council and the Chief Executive. The Internal Audit Annual Assurance report contributes to the evidence necessary in order for this statement to be prepared.
- 4.3 The Accounts and Audit (England) Regulations 2011 requires the Council to conduct a **review of the effectiveness of Internal Audit**. The Internal Audit Annual Assurance Report provides evidence in respect of this requirement.
- 4.4 Internal Audit make recommendations to management to improve the internal control environment of the system being reviewed. It is management's responsibility to develop and maintain the internal control systems and take the necessary action to implement agreed recommendations included in final internal audit reports.
- 4.5 The approved Terms of Reference for Internal Audit require that an annual report is prepared covering the items detailed in paragraph 3.3 and this is attached as Appendix 1.
- 4.6 The aim of most audit reports is to give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment. The levels of assurance arising from the internal audit reviews for 2012~13 with those of the previous year is as follows:

		KEY SYSTEMS <i>Assurance Level</i>			SUBSIDIARY SYSTEMS <i>Assurance Level</i>			
		Full	Some	Limited	Full	Some	Limited	TOTAL
2012-13	Number	10	14	1	3	0	0	28
	%	35.7	50.0	3.6	10.7	0.00	0.00	100
2011-12	Number	6	28	2	5	0	0	41
	%	14.6	68.3	4.9	12.2	0.00	0.00	100

- 4.7 The results of this table give an overall perspective only with the knowledge that some audit reviews of both key and subsidiary systems can range from a very large and complicated system to a very straightforward one. Therefore direct comparison of numbers and related percentages is not meaningful.
- 4.8 During 2012/13 Internal Audit have sought to further progress work with other Sections/Directorates to provide advice and assistance on the implementation of recommendations and action. As a result, measures have been put into place to facilitate a more timely proactive approach to improving systems and it is fair to conclude that there has been an improvement in control which has been enhanced by the introduction of Action Plans issued during the course of audit reviews. The aim of the Action Plans has been to enable Managers to react to observations with prompt remedial action which can be evidenced during the audit review and lead to an improved final audit assessment.
- 4.9 The annual report in Appendix 1 also covers a review of the effectiveness of Internal Audit required by the Accounts and Audit (England) Regulations 2011. CIPFA guidance indicates that compliance with the CIPFA Code of Practice is a useful tool for assessing the effectiveness of Internal Audit. A report detailing compliance with this Code was presented to the Audit Committee on the 24th September 2012
- 4.10 The CIPFA code details that an effective internal audit section should aspire to:
- Understand the whole organisation.
 - Understand its position with respect to the organisation's other sources of assurance and plan its work accordingly.
 - Be seen as a catalyst for change at the heart of the organisation.
 - Add value and assist the organisation in achieving its objectives.
 - Be forward looking.
 - Be innovative and challenging.
 - Help to shape the ethics and standards of the organisation.
 - Ensure the right resources are available in the section – recognising that the skills mix, capacity, specialisms, qualifications and experience requirements all change constantly.
 - Share best practice with other auditors.
 - Seek opportunities for joint working with other organisation's auditors.
- 4.11 The review of Internal Audit effectiveness is not about process. The focus of the review is in respect of the delivery of the Internal Audit Service to the required standard in order to produce a reliable assurance on internal control in operation in the council's practices and procedures – in essence the need for the review is to

ensure that the opinion given in Appendix 1 may be relied upon as a key source of evidence for the annual review of internal control.

- 4.12 It is the opinion of the S151 Officer, that it is **satisfactory**, this is detailed within Appendix 1.

5. FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 The Accounts and Audit (England) Regulations 2011 section 4 (2) require that:

“The relevant body (the Council) must conduct a review at least once in a year of the effectiveness of its system of internal control.”

This report contributes to the preparation of the Annual Governance Statement which is considered elsewhere on the agenda of this committee.

- 6.2 The Accounts and Audit (England) Regulations 2011 section 6 (1) require that:

“A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.”

This is the statutory requirement that this Council has an Internal Audit service.

- 6.3 The Accounts and Audit (England) Regulations 2011 section 6(3) require that:

“The relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit”.

The annual report attached as an appendix to this report forms part of this review.

7. RISK MANAGEMENT

- 7.1 It is a statutory requirement that the Council undertakes an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. Further it is a statutory requirement that the council shall at least once in each year conduct a review of the effectiveness of its internal audit.

- 7.2 The Internal Audit Section operates in accordance with proper practice in line with the CIPFA Code of Practice in Local Government and its approved terms of reference.

- 7.3 This report summarises the work undertaken by the Internal Audit Section for the 2012/13 financial year, it is assumed that External Audit have been able to place reliance on this work and that the annual report has been provided in accordance with the Internal Audit Section's approved Terms of Reference.

- 7.4 Corporate Risk Management forms part of the Councils processes as reported to this committee on 18th March 2013. This assists with the maintenance and development of the council's internal control environment.

8. EQUALITY IMPACT NEEDS ASSESSMENT

- 8.1 An Equality Impact Assessment screening has been undertaken and it is considered that there are no discernable impacts on the nine protected characteristics.

9. CONCLUSIONS

- 9.1 The Annual Report - 2012/13 provides an opinion from the Section 151 Officer, on the adequacy and effectiveness of the Council's internal control environment arising from the completion of Internal Audit reviews.
- 9.2 This opinion is based on the work undertaken by the Internal Audit Section in accordance with the approved Annual Audit Plan for 2012/13. This report is presented to members in accordance with the Terms of Reference for the Internal Audit section approved by the Council.
- 9.3 Overall it has been concluded that the internal control environment has seen improvement during 2012/13.
- 9.4 A review of the effectiveness of internal audit for the financial year 2012/13 has been undertaken in accordance with current guidelines.

10. CONSULTEES

- 10.1 Corporate Management Team.

11. BACKGROUND PAPERS

- 11.1 12th March 2012 ~ Audit Committee ~ Strategic Audit Plan 2012~2015.
24th September 2012 ~ Audit Committee ~ Cipfa Code of Practice Checklist.
29th June 2011 ~ Audit Committee ~ Internal Audit Terms of Reference ~ Update.
Accounts and Audit (England) Regulations 2011 (SI 817).

APPENDIX 1**WYRE FOREST DISTRICT COUNCIL****INTERNAL AUDIT ANNUAL ASSURANCE REPORT – 2012/13****Internal Control Environment**

The Council's Financial Procedure Rules (Financial Regulations) No. 1.3 state that it is the responsibility of Chief Officers (members of the Council's Corporate Management Team) to ensure that adequate internal controls are in place in their areas of responsibility. These internal controls include those to prevent and detect fraud.

The work of the Internal Audit Section relating to the financial year ended 31st March 2013 has been undertaken in accordance with the approved Audit plan 2012/13. The work undertaken has met the requirements of the Council's External Auditors. This work has been undertaken in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

The results of this work have been reported to the Audit Committee in quarterly reports on the 24th September 2012; 3rd December 2012; 18th March 2013; and 24th June 2013. These reports include a summary of the work undertaken in each quarter.

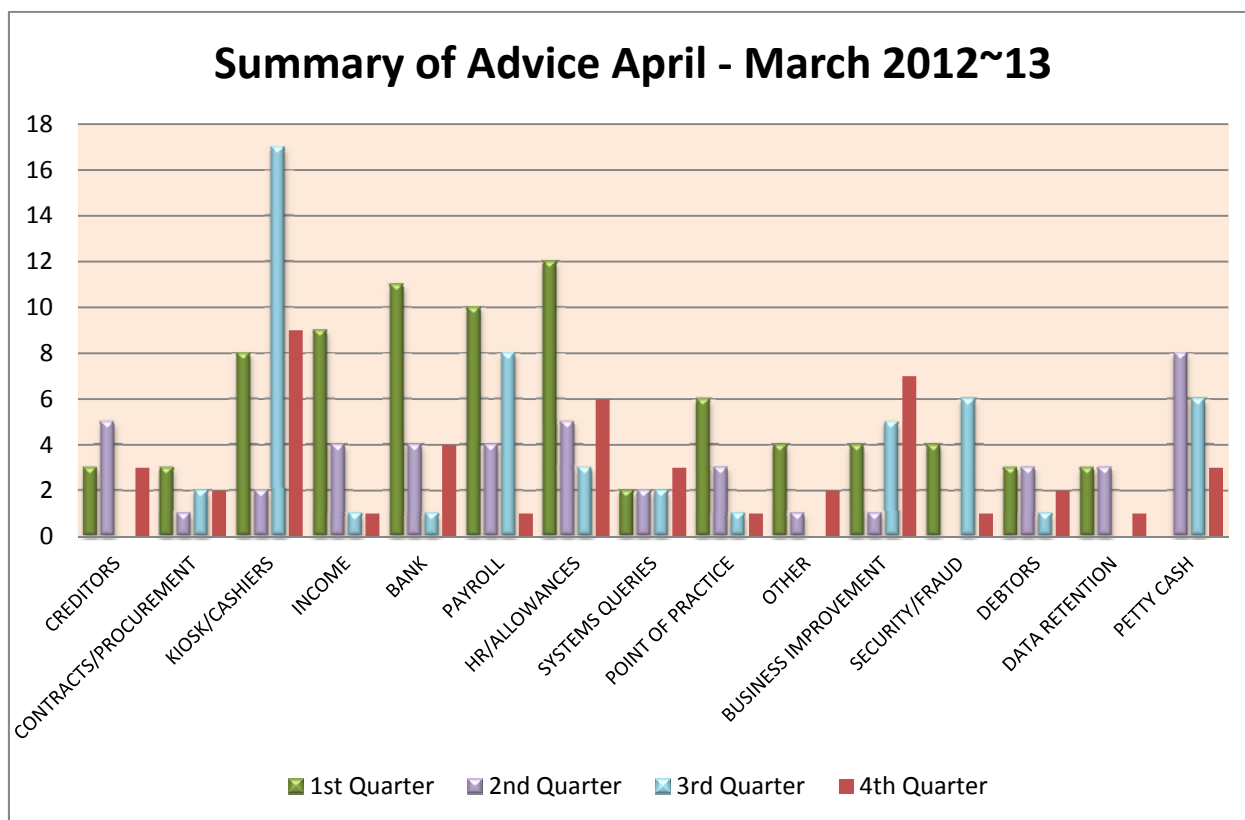
The internal control weaknesses identified from final and draft reports relating to the 2012/13 financial year have been considered in the preparation of this annual report. Where control weaknesses were identified, Management action plans are in place subject to ongoing review.

A comparison of the work actually undertaken with the work that was planned by audit type is as follows:

Year ended 31st March 2013

	Plan Days	Actual Days	Actual as % of Plan %
System and Probity	375	372.50	99.33%
Computer Audit	50	24.00	48.00%
Contract Audit	30	39.00	130.00%
Consultancy and Advice	40	49.00	122.50%
Irregularity	40	15.00	37.50%
Specific Service Duties	15	22.50	150.00%
SUB TOTAL	550	522	94.91%

Consultancy, advice and irregularity work are demand led activities, and do fluctuate each year. Utilisation of Internal Audit advice throughout the year, ensures that appropriate controls are incorporated at an early stage of planning new or changing current systems and processes. This work reduces the issues that will be raised in future audits and contributes to a stronger control environment. During 2012~13, the Internal Audit Team have continued to provide a consultancy and advice service to colleagues as required.



From the work undertaken by internal audit for the 2012/13 financial year overall the adequacy and effectiveness of the Council's internal control environment is considered to be:

Satisfactory

The conclusion on each Internal Audit review is based on the observations identified together with the recommendations made to improve the operation of the internal controls of the system under review. Of the recommendations arising from the reports issued in 2012/13 and subject to a 3 month follow up review, overall **98%** of the recommendations had been implemented with the remainder in progress.

It is drawn to the Audit Committee's attention that the following reports also provide information on the Council's internal control environment:

- The Council adopted the CIPFA/SOLACE Corporate Governance Framework in March 2008. Subsequently the implementation has been subject to reviews the latest of which was considered by the Audit Committee on 18th March 2013, where it was identified that the implementation was substantially complete.
- The findings and recommendations of the External Audit's Annual Audit Letter reported to the Audit Committee 24th September 2012. The audit did not identify any significant weaknesses in internal control arrangements. The main findings include:
 - Acknowledging that that the Council had acted on the recommendations of 2011~12.

INTERNAL AUDIT ANNUAL ASSURANCE REPORT –2012/13 (CONTINUED)

Internal Control Environment (Continued)

- The Director of Resources should ensure there is clear monitoring of budgets against each service lines as well as the achievement of cabinet proposals agreed for 2012~13. This is essential for Members' understanding of the financial position and to demonstrate the effectiveness of budget setting within the Council.

Review of the effectiveness of the system of internal audit

Work has been undertaken in accordance with the approved Internal Audit plan for 2012/13 and **98.1 %** of this plan has been completed by June 2013. Internal Audit reports have been reported to members of the Council's Corporate Management Team and the Audit Committee.

The approved Audit Plan is a statement of intent and has been subject to monitoring throughout the year. Those audits considered to be of highest priority for example relating to Key Financial Systems have been completed and reported upon.

The work of the Internal Audit section is undertaken in accordance with the CIPFA Code of Practice and procedures are continually reviewed and refined in order to ensure compliance.

The External Auditors review the files and reports of the Internal Audit Team. An assessment is made by the External Auditors on internal audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed adequate, assurance can be gained from the work of Internal Audit, concluding that the service is contributing positively to the internal control environment and governance arrangements within the Council. For 2012/13 External Audit concluded that the Internal Audit service continue to provide an independent and satisfactory service to the Council. The External Auditors have been able to take assurance on the work of the Internal Audit Team in contributing to an effective internal control environment at the Council.

In accordance with guidance on the requirements of the Accounts and Audit (England) Regulations 2011 on the review of the effectiveness of Internal Audit a survey of Employees as users of the Internal Audit Service has been undertaken. This survey was undertaken as a corporate survey across all employees in late 2012 distributed via the Intranet. Overall the responses have been found to be constructive and the views will contribute to help continually improve the Internal Audit Service.

As in previous years, the survey highlighted that the Internal Audit Team is continuing to work well with their customers, being approachable and able to support employees. The survey did identify the need for the Internal Audit Team to raise awareness of its role for all colleagues and this will be addressed by colleague workshops throughout 2013~14.

The matters reported here indicate that my report given in Appendix 1 may be relied upon as a key source of evidence in the annual review of internal control.

Joanne Wagstaffe
Section 151 Officer

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
24th JUNE 2013**Annual Governance Statement**

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME:	Stronger Communities
CORPORATE PLAN PRIORITY:	Delivering Together with Less
CABINET MEMBER:	Councillor N J Desmond
DIRECTOR:	Director of Resources joanne.wagstaffe@wyreforestdc.gov.uk tracey.southall@wyreforestdc.gov.uk
CONTACT OFFICER:	Financial Services Manager, Ext. 2125 tracey.southall@wyreforestdc.gov.uk
APPENDICES:	Appendix 1 - Annual Governance Statement 2012/13

1. PURPOSE OF REPORT

- 1.1 This report is to approve the Annual Governance Statement declaring the degree to which it meets the Governance Framework for inclusion within the Statement of Accounts.

2. RECOMMENDATION

- 2.1 **The Audit Committee is asked to approve:**

The Annual Governance Statement attached at Appendix 1.

3. BACKGROUND

- 3.1 The Accounts and Audit Regulations 2003 (as amended) require the Council to conduct an annual review of the effectiveness of internal control and publish the findings alongside the authority's financial statements. The regulations require that a relevant committee considers the findings of the review.
- 3.2 The need to produce a Statement of Internal Control has been superseded by the requirement to produce an Annual Governance Statement (AGS) using the framework defined in the CIPFA/SOLACE publication "Delivering Good Governance in Local Government: The Framework".
- 3.3 The Audit Committee approved the adoption of the CIPFA/SOLACE code at the meeting on the 17 March 2008 and the subsequent reviews on the implementation on 15 March 2010, 14 March 2011 and 12 March 2012.
- 3.4 In relation to the 2012/13 Annual Governance Statement it is proposed to use existing processes in relation to the review of the control system, collation of information and compilation and monitoring of the Annual Governance Statement.

4. KEY ISSUES

- 4.1 In establishing the draft documents the following pieces of evidence were considered within the current Assurance Framework:
- Internal Audit reports, following the annual assurance report from the S151 Officer,
 - External Audit reports;
 - Assurance Statements completed by senior staff;
 - Corporate Risk Register;
 - External Inspection findings including;
 - Other relevant information.
- 4.2 The Annual Governance Statement is presented to the Audit Committee for approval, prior to the signing by the Chief Executive and the Leader of the Council.
- 4.3 The draft Annual Governance Statement for 2012/13 is shown at Appendix 1; this document has been prepared in line with the CIPFA/SOLACE guidance.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications relating to this report.

6. LEGAL & POLICY IMPLICATIONS

- 6.1 It is a requirement under the Accounts and Audit Regulations 2003 (amended 2006 & 2011) that the Council prepares an Annual Governance Statement.

7. RISK MANAGEMENT

- 7.1 The Governance Framework pulls together all of the Council's information in relation to governance. In doing so the Council has regard for the Corporate Risk Register and approach to Risk Management. It is essential that the Council acts upon the significant governance issues that have been identified within the Annual Governance Statement.

8. CONCLUSION

- 8.1 The Council is required to complete an Annual Governance Statement which is required to:
- Consider the arrangements required for gathering assurances for the preparation of the annual governance statement
 - Consider the robustness of the Authority's governance arrangements
 - Monitor any actions arising from the review of arrangements.
- 8.2 The statement is submitted to the Audit Committee for approval on 24th June 2013.

9. CONSULTEES

- 9.1 Corporate Management Team.
- 9.2 Leader of the Council.

10. BACKGROUND PAPERS

- 10.1 CIPFA Finance Advisory Network The Annual Governance Statement Meeting the requirements of the Accounts, Audit Regulations 2003, Incorporating Accounts and Audit (Amendment) (England) Regulations 2006 Rough Guide for Practitioners with effect from 2007/8, 2011Accounts and Audit Regulations and SI 817.
- 10.2 DCLG Circular 03/2006.
- 10.3 Delivering Good Governance in Local Government CIPFA/SOLACE.
- 10.4 Code of Practice for Internal Audit in the UK CIPFA 2006.

STATEMENT OF ACCOUNTS 2012/13

Annual Governance Statement – 2012/13

Scope of Responsibility

Wyre Forest District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Wyre Forest District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Wyre Forest District Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Wyre Forest District Council has adopted the code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*, and has implemented this framework during the last year. A copy of the code is on our website at www.wyreforestdc.gov.uk or can be obtained from The Worcestershire Hub at Wyre Forest, Wyre Forest Customer Services Centre at the Town Hall, Kidderminster. This statement explains how Wyre Forest District Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2011 in relation to the publication of a statement on internal control.

The purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Wyre Forest District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically.

The governance framework has been in place at Wyre Forest District Council for the year ended 31st March 2013 and up to the date of approval of the statement of accounts.

The Governance Framework

This is defined as 'the systems by which local authorities direct and control their functions and relate to their communities'.

The key elements of the Council's systems and processes that comprise the authority's governance arrangements are included in the Council's Constitution which is reviewed and updated throughout the year. The arrangements have been implemented to provide a robust framework to deliver good governance. The core principles of governance are:

Annual Governance Statement – 2012/13 (continued)

1. Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
5. Developing the capacity and capability of members and officers to be effective
6. Engaging with local people and other stakeholders to ensure robust public accountability

Delivery

The Council delivers these outcomes through:

- Annually reviewing local procedures and practices, which together create the framework for good corporate governance as described in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance.
- Regularly reviewing progress against the elements of the Governance Framework
- Producing an Assurance Statement on the extent to which the local code has been adhered to and the actions required where, adherence has not been achieved.

Review of Effectiveness

Wyre Forest District Council has responsibility for regularly reviewing the effectiveness of its governance framework including the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the management team within the authority, which has responsibility for the development and maintenance of the governance environment, the Section 151 Officer's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Council process for maintaining and reviewing the effectiveness of the governance framework includes:

- Findings and recommendations of Internal Audit;
- Updates by the managers within the authority who have responsibility for the development and maintenance of the internal control environment;
- Findings and recommendations by the external auditors and other review agencies and inspectorates.

STATEMENT OF ACCOUNTS 2012/13

Regular reviews are carried out by the Corporate Management Team, including the 18th March 2013 and 6th June 2013. These reviews take into account:

- the Internal Audit Annual Assurance report from the Section 151 Officer for 2012/13
- comments of other review agencies, inspectorates and external bodies;
- the findings and recommendations of the External Audit's Annual Audit & Inspection Letter reported to the Audit Committee on 24th September 2012;

All Councillors and Officers of the Council adhere to the Constitution and codes of conduct. The duty to ensure compliance is predominantly the responsibility of the Council's three statutory officers:

- Head of the Paid Service (Chief Executive)
- Monitoring Officer (Director of Community Assets & Localism)
- Chief Financial Officer (Director of Resources)

The constitution is under constant review, to ensure that it remains fit for purpose.

The Audit Committee is the member forum that is responsible for reviewing and monitoring Corporate Governance in relation to Risk and Audit matters. The Audit Committee also regularly considers the recommendation from Internal audit. Progress against the External Audit's Annual Audit & Inspection Letter as reported to the Audit Committee on 24th September 2012 was considered at its meeting on the 18th March 2013.

The Council's Director of Resources has the overall responsibility to ensure that the internal control environment is effective and adhered to. This is delivered through the Internal Audit service. Internal Audit undertake regular reviews of all of the Council's systems and produce reports containing recommendations for improvement wherever necessary, in line with their 3-year audit plan (2012/15). The Council's Internal Audit operates using the CIPFA Code of Practice For Internal Audit 2006.

External audit reports are reviewed and considered by the Audit Committee and the Council's Management Team. In addition to this, the Council is also subject to formal review by other inspectorates, these reviews are considered by the Council's Cabinet.

The results of the review of the effectiveness of the governance framework by the Audit Committee have been identified, and a plan to address weaknesses and ensure continuous improvement of systems is shown below.

Significant Governance Issues

The main issues, which are being or need to be addressed during the coming year, include:

- The progression of the Leisure Future project to ensure that the Council meets the future needs of the District and achieves the most affordable and sustainable option;
- Continued priority to be given to the on-going recovery of the Council's "Icelandic" investments;
- Continued progression with the Wyre Forest Forward programme and associated transformation projects, including robust monitoring with the opportunity to challenge as appropriate, against savings plans;

- Maintaining financial resilience by securing approval of a medium term Financial Strategy with a fully balanced budget, taking into account the challenges presented by the Local Government Resource Review, including further work around forecasting and profiling of income.
- Maintaining financial resilience with reduced resources in the finance team.
- Maintaining resilience in the governance process following the management restructure.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our annual review.

Signed

I Miller
Chief Executive

J P Champion
Leader of the Council

XXth September 2013