

Open

Audit Committee

Agenda

6pm
Monday, 2nd December 2013
Council Chamber
Wyre Forest House
Finepoint Way
Kidderminster



Audit Committee

Members of Committee:

Chairman: Councillor E Davies
Vice-Chairman: Councillor J Phillips

| | |
|--------------------------------|-----------------------------|
| Councillor P Dyke | Councillor J Greener |
| Councillor M B Kelly | Councillor N Knowles |
| Councillor D C H McCann | 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 and Electoral Services 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, 2nd December 2013

Council Chamber, Wyre Forest House, Finepoint Way, Kidderminster

Part 1

Open to the press and public

| Agenda item | Subject | Page Number |
|--------------------|--|--------------------|
| 1. | 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 Solicitor to the Council, 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 23 rd September 2013. | 6 |
| 5. | Audit Update To receive the Audit Update from Grant Thornton. | 11 |
| 6. | Annual Audit Letter and Audit Opinion To receive a Annual Audit Letter from Grant Thornton together with the Audit Opinion. | 25 |
| 7. | Internal Audit Monitoring Report Quarter Ended 30th September 2013 To receive a report from the Principal Auditor that informs Members of the Internal Audit Monitoring Report for the quarter ended 30 th September 2013. | 44 |

| | | |
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| 8. | <p>Corporate Governance Framework</p> <p>To receive two reports from the Chief Financial Officer and the Principal Auditor updating the governance framework in relation to their respective roles.</p> | 63 |
| 9. | <p>Internal Audit Public Sector Internal Audit Standards 2013</p> <p>To receive a report from the Chief Financial Officer and the Principal Auditor updating the position in relation to the Public Sector Internal Audit Standards.</p> | 84 |
| 10. | <p>To consider any other business, details of which have been communicated to the Solicitor to the Council 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 Solicitor to the Council 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> | |
|-----|---|--|

WYRE FOREST DISTRICT COUNCIL

AUDIT COMMITTEE

COUNCIL CHAMBER, WYRE FOREST HOUSE, FINEPOINT WAY,
KIDDERMINSTER

23RD SEPTEMBER 2013 (6PM)

Present:

Councillors: E Davies (Chairman), J Phillips (Vice-Chairman), P Dyke, J Greener, N Knowles, H J Martin, D C H McCann and C Rogers.

Observer:

Councillor N J Desmond.

AUD.10 Apologies for Absence

Apologies for absence were received from Councillor M B Kelly.

AUD.11 Appointment of Substitutes

Councillor H J Martin was appointed as a substitute for Councillor M B Kelly.

AUD.12 Declarations of Interests by Members

No declarations of interest were made.

AUD.13 Minutes

Agreed: The minutes of the meeting held on 24th June 2013 be confirmed as a correct record of the meeting and signed by the Chairman.

AUD.14 Audit Update

The Committee received an update from Grant Thornton. Members were taken through the report and the following points were confirmed:

- a. The Council's contribution for the Lawrences fire was capped at £50k.
- b. Work was ongoing for the qualification for 2012/2013 grant claim form.
- c. Considerable work had been undertaken on a decluttering exercise which had assisted with the Audit process this year.
- d. The Finance Team had worked closely with Grant Thornton to alleviate errors. Training was undertaken for those staff involved with the audit process.
- e. If any confidentially agreements arose within the Council, these were

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taken up with the Solicitor to the Council and the Human Resources team.

- f. With regard to the New Local Government Network research paper “Future Councillors – where next for local politics?”, Grant Thornton replied that the public wanted to see more communication as to what was happening with the Council and it was felt that better ways of engagement was required to do that.

In response to a Members question, it was confirmed that the Audit Commission would be abolished from March 2015 pending a bill going through Parliament.

Agreed: The information be noted.

AUD.15 Financial Resilience Report

The Committee received a report from Grant Thornton on the review of the Council’s arrangement for securing financial resilience.

Members were informed that the Council had a growing pension liability which was not dissimilar to other authorities but as people were living longer, then it would become more difficult for the Council to maintain financial balances. Grant Thornton felt that the Strategic Review Committee had an important role to play in the future financing of the Council.

Grant Thornton recommended that the Council should keep a minimum of £1m in its reserves.

In response to a Member query, the Grant Thornton confirmed that with regard to the next steps for Financial Governance, they had suggested that the Council should consider using external consultation to support the Medium Term Financial Plan.

Agreed: The information be noted.

AUD.16 The Audit Findings for Wyre Forest District Council – Report 2012/13 Final Accounts

The Committee received a report from Grant Thornton detailing the findings of the audit of accounts for 2012/13.

Grant Thornton thanked the Finance Team for their support during the recent audit which had made the audit simpler to carry out. Their overall opinion had been it was a clean audit and they were happy with it.

Members were informed that the Council would receive an unqualified audit opinion on its financial statements and Value for Money.

Members were advised that the Audit findings had identified that there was no significant issues in relation to the risks identified.

In response to a Members question, Grant Thornton replied that in relation to the risks identified in Employee Remuneration and Housing & Council Tax

Agenda Item No. 4

Benefits, these were apparent to all Councils across the country and items that the auditors would always look at. In relation to the Welfare expenditure, Members were informed that housing and council tax was one of the most complex areas that had to be audited and even though errors were found, they Council had very few. In addition, Grant Thornton were required to report the findings of this to the Department of Works and Pensions.

Members were informed that with regard to pension liability, the Council compared similar to other authorities. However, the Council needed to build into their financial plan the pension fund revaluation and the liability that required to be paid. It was noted that the pension fund was administered by Worcestershire County Council and the authority did not have any control of it. It was also reported that there were not significant numbers being granted early retirement from Wyre Forest District Council.

The Chief Financial Officer assured the Committee that implementation of the recommendations from the action plan had already commenced.

Agreed: The information be noted.

AUD.17 Annual Audit Letter Wyre Forest District Council 2012/13

The Committee received a draft Annual Audit Letter from Grant Thornton that summarised the results and findings from 2012/13.

Members were advised that unfortunately this item had not been prepared in time for the meeting but would be on the agenda for the meeting on 2nd December 2013.

Agreed: The information be noted.

Councillor N J Desmond left the meeting at this point, (6.50pm).

AUD.18 Statement of Accounts 2012/13

The Committee considered a report from the Chief Financial Officer on the Statement of Accounts 2012/13 following changes required by Grant Thornton as a result of the audit and considered and approve the letter of representation in respect of the 2012/13 audit.

Members were taken through the report and informed that the year had been very positive and officers were thanked for their hard work. Members attention was drawn to 2.2 of the recommendations and informed that the appendix to be approved should be appendix 1 and not appendix 2.

Members attention was also drawn to page 17 of the Statement of Accounts 2012/13 – Balance Sheet, which gave information on the value of the land and buildings that the Council owned. There was confusion with some of figures and the Chief Financial Officer would clarify the situation.

In response to a query raised by a Member which related to the Summary of the Comprehensive Income and Expenditure Account - Movement in Reserves Statement, the Chief Financial Officer agreed to circulate the information which

would include a breakdown of the service areas.

In response to a question, Members were informed that the two loans the Council took out in 2012/13 were with Borough of Kings Lynn and Norfolk Council. There was an underlying need for the Council to borrow money at times and advice was taken from Sector when doing so. A financial appraisal was carried out when the Council wished to borrow money.

With regard to the Council vehicles, these were bought and not leased.

Agreed:

- 1. The Revised Statement of Accounts for 2012/13 be approved.**
- 2. The Letter of Representation for 2012/13 attached at Appendix 1 of the report to the Audit Committee be approved.**

AUD.19 Internal Audit Monitoring Report Quarter Ending 30th June 2013

The Committee received a report from the Section 151 Officer/Principal Auditor which informed Members of the Internal Monitoring Report for the quarter ended 30th June 2013.

The Principal Auditor highlighted reports which had been finalised in the quarter, all of which had achieved “full” or “some” assurance. Reports with “some” assurance had been explained in detail in the report.

In response to a Member query, the Principal Auditor replied that the process for Car Parks Cash Reconciliation was now in place. The audit ticket was printed out to reconcile against the money in the pay and display machines.

Agreed: The Internal Audit Monitoring Report for the Quarter ended 30th June 2013 as detailed in the Appendix to the report to the Audit Committee be considered.

AUD.20 Risk Management – Corporate Risk Register

The Committee received a report from the Chief Financial Officer which provided an update on the Corporate Risk Register.

Members were taken through the report and the following points were highlighted:

- a. The pinch point funding for the Hoobrook Link Road had been secured and allocated but it had not yet been paid over. The site was progressing and it was felt that this was positive for the district.
- b. The red indicated in the boxes in the Corporate Risk Register 2013/14 report did not mean it was a financial risk to the Council but something that needed to be looked at.
- c. The “Reputation Matters” Flyer that was to be produced as a reminder for the do’s and don’t’s of good reputation would be circulated to Members.

Agreed: The Corporate Risk Register and the associated mitigating actions as at 31st July 2013 be considered and noted.

AUD.21 Corporate Governance Framework

The Committee received a report from the Chief Financial Officer which provides an update on the Corporate Governance Framework.

Members were informed that a further report on any outstanding actions would be presented to the Audit Committee at its December 2013 meeting.

In response to a Member query, on one of the key elements “Ensuring effective management of change and transformation”, it was confirmed that this was based around corporate objectives.

It was confirmed that the language in the report would be simplified.

Agreed: The current position in respect of the Corporate Government Framework as attached to the report to the Audit Committee be noted.

Before the meeting closed, the Chairman asked Members of the Committee if they had any issues with regard to the Terms of Reference, could they contact the Solicitor or the Committee and Electoral Services Officer in order for the item to be on the agenda for the next meeting.

The meeting ended at 7.39 pm.



Audit Committee Update for Wyre Forest District Council

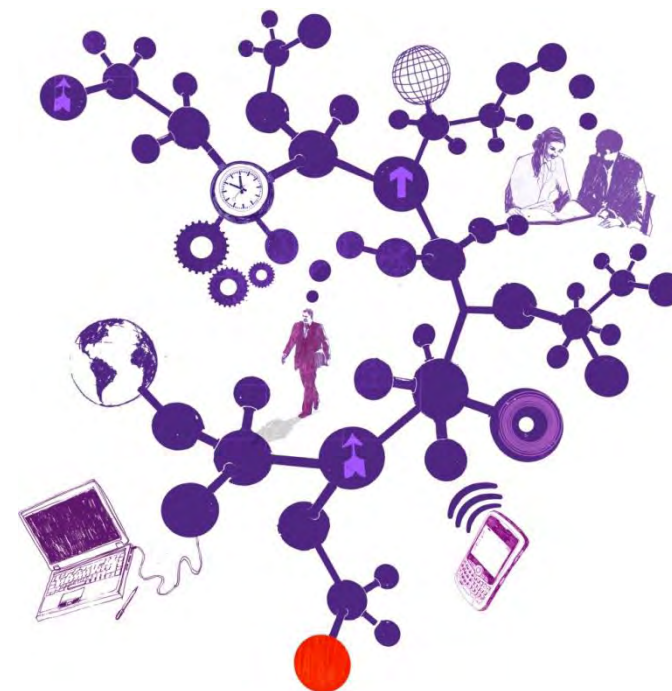
Year ended March 2013

November 2013

Mark Stocks
Engagement Lead
T +44 (0)121 232 5437
E mark.c.stocks@uk.gt.com

Gill Edwards
Manager
T +44 (0)121 232 5338
E gill.edwards@uk.gt.com

Kate Kenderdine
Executive
T +44 (0)121 232 5316
E kathryn.a.kenderdine@uk.gt.com



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.

Mark Stocks Engagement Lead T [0121 232 5437 M [07584 591488] mark.c.stocks@uk.gt.com

Gill Edwards Audit Manager T [0121 232 5338] M [07880 456104] gill.edwards@uk.gt.com

Progress at November 2013

| Work | Planned date | Complete? | Comments |
|---|------------------|-----------|----------|
| <p>2013-14 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 2013-14 financial statements.</p> | March 2014 | No | |
| <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 2014 | No | |
| <p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion | July/August 2014 | No | |

Progress at November 2013

| Work | Planned date | Complete? | Comments |
|--|----------------------|-----------|----------|
| <p>Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • Securing financial resilience • Challenging how the body secures economy, efficiency and effectiveness. | <p>March 2014</p> | <p>No</p> | |
| <p>Other areas of work</p> | | | |
| <p>Other activity undertaken</p> <ul style="list-style-type: none"> • Invitation to seminar – Information Protection (Protecting information in public organisations) | <p>December 2013</p> | | |

Emerging issues and developments

Local government guidance

Income from charging

In September, the Audit Commission published '[Income from charging: Using data from the VFM Profiles, September 2013](#)'. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils' overall service expenditure, and 20 per cent of district councils
- nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no 'one-size-fits-all' formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils' strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

Challenge questions:

- When did the Council last review its local charging policy? Does the Council's policy still support the Council's strategic objectives? What options are available for change?
- Do your officers monitor changes in income from charging and its contribution to spending in order to assess whether local charging policies are supporting the council's financial objectives and complying with legal requirements?
- Has your Chief Financial Officer reviewed the council's charging policy and levels of income against similar organisations?
- Where issues have been identified, has an action plan been implemented?

Emerging issues and developments

Local government guidance

Business rate collection

In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth.

In October, the Audit Commission published '[Business rates: using data from the VFM profiles October 2013](#)'. This briefing has been drawn from the Commission's Value for Money (VFM) profiles and shows an analysis of English council's collection rates and costs of collecting business rates.

The Audit Commission also highlights the following steps councils could take to maximise business rates:

- supporting existing business to do well and attracting new businesses to the area
- identifying and billing all business properties with a rateable value promptly
- using discretionary relief in an effective way, targeting businesses most in need
- preventing and tackling fraudulent claims for relief
- improving collection rates
- reducing collection costs.

Challenge questions:

- Has your Chief Financial Officer reviewed the costs and performance of your authority against similar organisations?
- What steps could your authority take to increase the amount it collects from business rates?
- Is an action plan in place?
- Are you satisfied that your authority has made a robust estimate for its provision for business rate appeals?

Emerging issues and developments

Grant Thornton

Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Authority estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

Challenge questions:

- Does your authority have a properly functioning procurement process, where duties are clearly segregated?
- Does your authority maintain an adequate whistleblowing mechanism for whistleblowing, whereby employees feel they are able to report their suspicions in a safe and secure manner?

If you have any queries on procurements processes and/or procurement fraud, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Accounting and audit issues

Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in [Room 151](#), the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

- learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
- continue to de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were only half the length of those for 2011/12 and were much easier to follow.

Challenge questions:

- How are you planning to further improve the preparation of your financial statements for 2013/14?
- Do your financial statements provide a clear overall picture of the financial performance of your authority?
- Has your Chief Financial Officer carried out a de-cluttering exercise again this year to continue the work undertaken last year to ensure that disclosures are relevant, material and up to date?

Emerging issues and developments

Accounting and audit issues

Consultation on Local Authority Accounting Code of Practice for 2014/15

CIPFA/LASAAC's consultation on the Local Authority Accounting Code of Practice for 2014/15 closed in October.

In our response we noted that the complexity of international financial reporting standards (IFRS) inevitably means that it is increasingly difficult to construct a Code that is comprehensive, of reasonable length and fit for purpose. We suggested that the Code of Practice follows the approach adopted by the Treasury in the Financial Reporting Manual under which bodies are required to follow the relevant accounting standard other than where there are specified formal adaptations or interpretations. This would result in a much shorter simpler Code with local authorities referring directly to the underlying standards themselves. This approach is consistent with that adopted in the NHS, where the accounting manuals do not seek to repeat text from accounting standards.

In respect of the some of the other key consultation issues, our views were:

- IFRS 13 - the Code should follow the principles of IFRS 13 as closely as possible. We regard it as important that there is a common application of fair value by all bodies preparing accounts under IFRS.
- Infrastructure assets - we supported the adoption of IFRS based accounting for infrastructure assets. We recognise the practical difficulties in doing this and have offered to work with CIPFA/LASAAC and local authorities to help overcome these difficulties.
- Schools - we emphasised the importance of addressing the accounting issues for schools as a matter of priority, particularly because this is an area for which the Whole of Government Accounts are currently qualified.

Challenge question:

- Has your Chief Financial Officer reviewed the proposed amendments to the 2014/15 Code and assessed the potential impact? (For your information attached is a link to GT's response to the consultation.

http://gtuklivelink.gtukint.com/livelink/lisapi.dll/fetch/2000/51510693/54725234/54727722/56847168/Grant_Thornton_response_to_CIPFA-LASAAC_consultation_on_the_2014-15_Code.pdf?nodeid=61430782&vernum=-2

Emerging issues and developments

Accounting and audit issues

Property plant and equipment revaluations

The 2013/14 Code of Practice on Local Authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

Challenge questions

- Are both your Chief Financial Officer and your professional advisors satisfied that your revaluation programme is sufficiently regular to ensure that the carrying amount of Property, Plant and Equipment at 31 March 2014 will not differ materially from that which would be determined using the fair value at that date?
- Has your Chief Financial Officer reviewed the changes to the 2013/14 Code and implemented a valuation process to ensure your authority complies with other aspects of the Code requirements?
- Where your authority is unable to comply fully with the Code in 2013/14, are you satisfied that any non-compliance is immaterial and has an action plan been put in place to address non-compliance issues in future years?

Emerging issues and developments

Accounting and audit issues

Public briefing on the Local Audit and Accountability Bill

In September, the Audit Commission published a [briefing note on the Local Audit and Accountability Bill](#). The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.

Challenge question:

- Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect you?



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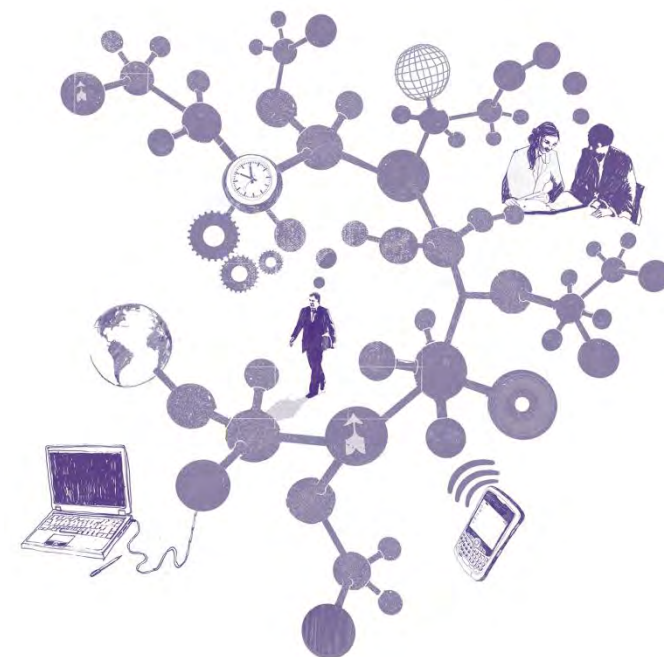
The Annual Audit Letter for Wyre Forest District Council

Year ended 31 March 2013

October 2013

Mark Stocks
Engagement lead
T 0121 232 5437
E mark.c.stocks@uk.gt.com

Gill Edwards
Manager
T 0121 232 5338
E gill.edwards@uk.gt.com



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Section 1: Executive summary

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Wyre Forest District Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 23 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 18 March 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the Council's Whole of Government Accounts submission
- we have certified one grant claim and return, which was certified without amendment. We are still undertaking our audit of the Housing and Council Tax Benefit claim. This is due for completion at the end of November 2013. The claim will be subject to a qualification letter.

Executive summary

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

The Council has performed well in many aspects of the audit and in its delivery of services to the public.

The accounts were well presented and required only minor amendments. We issued an unqualified opinion on the accounts. We also concluded that the Council has appropriate arrangements for securing efficiency, economy and effectiveness. In particular, we noted that the Council has adequate arrangements in place for securing financial resilience with strong financial performance management and budgeting systems in place. The Council has also prioritised its resource to take into account reductions in funding from the Government and has achieved the required cost reductions in year.

Issues raised in the previous year's Annual Audit Letter identified a number of challenges for the Council. Most of these have been addressed. The Council has dealt well with the introduction of localisation of Council tax benefit and has achieved planned savings targets outlined in the Wyre Forest Forward Programme. The Council has also continued to make funds available to stimulate growth to support the economic prosperity of the area.

The Council must continue to find alternative ways of delivering services. The Council has continued to use its reserves to enable it to set a balanced budget. Given the reduction in funding from the Government, the use of reserves is an appropriate short to medium term response. In the longer term the Council will need to reduce its use of reserves and ensure that it operates within the resources available to it.

The Council is aware of this challenge and has established a strategic review committee to develop a revised strategy to address its underlying deficit. As mentioned last year, the continued development of shared service arrangements will need to be explored if the impact on front line services is to be mitigated, and efficiencies and savings delivered.

The management of the community's expectations will continue to be important as the Council moves through rapid change and reorganisation. Communication will also be vital to preserve a committed and motivated workforce in the face of these changes.

Acknowledgements

This Letter has been agreed with the Chief Financial Officer and will be presented to Audit Committee on 2 December 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 24 June 2013, in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced 15 July 2013.

The accounts and working papers were of a good quality and co-operation in dealing with audit issues was strong. We also worked together to simplify and streamline the accounts prior to submission for audit.

Issues arising from the audit of the accounts

We recommended a small number of adjustments to disclosures notes in the draft accounts. Officers agreed to make these adjustments, none of which impacted on the Council's General Fund balance. Our audit also considered internal controls relevant to the preparation of the financial statements. We identified a number of minor control deficiencies during the course of the audit. These were formally reported to management. No significant or material weaknesses were identified.

The Council submitted its draft Whole of Government Accounts pack for audit by the deadline of 7 August and we submitted the short-form statement on 26 September 2013 based on there being no significant issues with the quality of the information contained in the pack.

We did not receive any questions or objections from local government electors on the accounts, allowing us to certify the audit as complete on 26 September 2013.

Annual governance statement

We concluded that the Annual Governance Statement and Explanatory Foreword were consistent with our knowledge of the Council. Our review confirmed that the statement fairly reflects the Council's risk assurance and governance framework.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 23 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 26 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our work highlighted that whilst the Council faces challenges during 2012-13 and beyond, its current arrangements for achieving financial resilience are adequate. Further details are provided in our Financial Resilience report issued in September 2013.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our work highlighted the fact that the Council's medium term financial strategy is focussed on the use of reserves and no alternative strategy has been clearly identified to deal with the period when the reserves run out. Financial risks have been managed in the short to medium term only with limited consideration of longer term implications. The Council are in the process of addressing this through the Strategic Review Committee.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Certification of grant claims and returns

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Certification of grant claims and returns

Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding. Our work on certification of grant claims is on-going.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Findings

We have completed the audit of the NNDR return and identified no issues with the claim.

Our work to date has identified an issue with the Housing and Council Tax Benefit Grant Claim. Errors have been identified with the classification of overpayments as well as the recording of claimant's wages. As a result a qualification letter will be issued. It is not possible to determine the value of any amendment at present. A recommendation has been included within the Audit Findings Report for refresher training to be provided to all benefit assessors.

Key messages

The key messages to date from our certification work are summarised in the table below. Further details will be provided in our certification report.

Summary of the Council's arrangements

| Aspect of certification arrangements | Key Messages | RAG rating |
|---|---|------------------------------|
| Submission & certification | Both claims were received by the required deadline | ● Green |
| Accuracy of claim forms submitted to the auditor (including amendments & qualifications) | No issues were identified with the NNDR return The Housing Benefit and Council Tax Benefit Claim will be qualified | ● Green ● Amber |
| Supporting working papers | The Council provided excellent working papers to support the claim, and all staff fully participate in the audit process | ● Green |

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

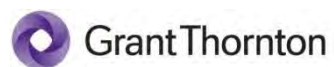
| | Per Audit plan £ | Actual fees £ |
|-------------------------|---------------------|------------------|
| Audit Fee | 64,348 | 64,348 |
| Grant certification fee | 12,850 | tbd |
| Total fees | 77,198 | tbd |

Fees for other services

| Service | Fees £ |
|---------|--------|
| None | Nil |

Reports issued

| Report | Date issued |
|-----------------------------------|----------------|
| Audit Plan | March 2013 |
| Audit Findings Report | September 2013 |
| Certification report | tbd |
| VfM – Financial Resilience Report | September 2013 |
| Annual Audit Letter | October 2013 |



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Tracey

Mr Ian Miller,
Chief executive
Wyre Forest District Council
Wyre Forest House
Finepoint Way
Kidderminster

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham B4 6AT
T +44 (0)121 212 4000
www.grant-thornton.co.uk

30 September 2013

Dear Ian IRM 7/10

Wyre Forest District Council : Auditor's reports on the financial statements

We are pleased to be able to advise you that the audit of the Council's accounts for the year ending 31 March 2013 has been completed.

An unqualified opinion on the accounts was issued on 26th September 2013. On the same date we also issued an unqualified conclusion on the Council's arrangements for securing value for money as required by the Audit Commission's Code of Practice.

Please note that Regulation 11 of the Accounts and Audit (England) Regulations 2011 requires the Council to give notice by advertisement, including notification on its website, that the audit has been concluded.

Auditor's reports on the financial statements

We have noted your wish to publish and distribute the financial statements in electronic format. In accordance with International Standards of Auditing 720 Section A, as issued by the Financial Reporting Council, we are required to:

- review the process by which the financial statements to be published electronically are derived from the financial information contained in the manually signed accounts;
- check that the proposed electronic version is identical in content to the manually signed accounts; and
- check that the conversion of the manually signed accounts into an electronic format has not distorted the overall presentation of the financial information, for example, by highlighting certain information so as to give it greater prominence.

However:

- the examination of the controls over the electronic publication of audited financial statements is beyond the scope of the audit of the financial statements and the auditor cannot be held responsible for changes made to audited information after the initial

publication of the financial statements and auditor's report;

- where you wish to publish or distribute the financial statements electronically, you are responsible for ensuring that the publication accurately presents the financial statements and auditor's report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods; and
- the audit report on the financial statements should not be reproduced or referred to electronically without our written consent.

Please ensure that:

- you only publish the financial statements accompanied by the auditor's report on those statements;
- you only publish the financial statements accompanied by the "other information" provided to us before we issued our audit report and specifically referred to in our audit report; and
- you do not publish the financial statements accompanied by any other information not provided to us prior to issuing our audit report.

Additionally, please do not reproduce the signature of the auditor in any electronic format for any purpose.

Please feel free to contact me if you like clarification on any point.

Yours sincerely



Mark Stocks

For Grant Thornton UK LLP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WYRE FOREST DISTRICT COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Wyre Forest District Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Wyre Forest District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Wyre Forest District Council as at 31 March 2013 and of its expenditure and income for the year then ended; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Wyre Forest District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Wyre Forest District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.



Mark Stocks
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

26 September 2013

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
2nd DECEMBER 2013**Internal Audit Monitoring Report**
Quarter Ended 30th September 2013

| OPEN | |
|--|---|
| SUSTAINABLE COMMUNITY STRATEGY THEME: | Stronger Communities |
| CORPORATE PLAN PRIORITY: | Delivering Together with Less |
| CABINET MEMBER: | Councillor N J Desmond |
| RESPONSIBLE OFFICER: | S151 Officer |
| CONTACT OFFICER: | Cheryl Ellerton, Extension 2116 cheryl.ellerton@wyreforestdc.gov.uk |
| APPENDIX 1 | Appendix 1 - Internal Audit Monitoring Report for the Quarter ended 30 th September 2013 |

1. PURPOSE OF REPORT

- 1.1 To inform members of the Internal Audit Monitoring Report for the Quarter ended 30th September 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 30th September 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 2013~14 in March 2013 as part of the 3 year 2012~15 Strategic Audit Plan. This plan takes into account changes in priorities or risk.
- 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** to include draft reports issued following completion of 2012~13 Annual Audit Plan
- Section 5 **Performance Statistics**

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 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 September 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 regular reports in respect of the Council's performance in delivering the Wyre Forest Forward Programme.
- 4.3 The Internal Audit Team operate in accordance with recognised Internal Audit Standards¹. 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 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.

¹ The UK Public Sector Internal Audit Standards (UKPSIAS) from April 2013 (previously CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006).

- 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 30th September 2013 is reported within Appendix 1. This information is presented to members in accordance with the Terms of Reference for the Internal Audit Team.

10. CONSULTEES

- 10.1 Corporate Management Team.
Cabinet Member for Resources & Transformation.

11. BACKGROUND PAPERS

- 11.1 18th March 2013 ~ Audit Committee ~ Internal Audit Annual Plan 2013~14.
12th March 2012 ~ Audit Committee ~ Strategic Audit Plan 2012~2015.
29th September 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
30th SEPTEMBER 2013**

INTERNAL AUDIT
QUARTERLY AUDIT REPORT
QUARTER ENDED 30TH SEPTEMBER 2013

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Tracey Southall
SECTION 151 OFFICER

8th November 2013

Agenda Item No. 7

| SECTION 1 FINAL AUDIT REPORTS ISSUED IN THE QUARTER ENDED 30th SEPTEMBER 2013 | | |
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| CORE FINANCIAL SYSTEM REVIEWS | | |
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| KEY | | |
|------------------------|---|---|
| Assurance Level | Description of Assurance Level | What is reported in the Quarterly Audit Report |
| U = Unsound | <p>Significant breakdown in the overall framework of controls with a number of significant recommendations ~ provides little or no assurance.</p> <p>A significant internal control is one which is key to the overall framework of controls.</p> | 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: Journals 2012-13 (Part of Budgetary Control & Monitoring) BUDGET: Various REF: | DRAFT REPORT DATE ISSUED: 3 rd May 2013 FINAL REPORT DATE ISSUED: 29 th August 2013 | SERVICE: Resources Directorate (Accountancy) RESPONSE RECEIVED: 28th August 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. | | |

NB: Assurance level for this system is highlighted

Overview:

This Audit forms part of the annual assurance reviews undertaken as part of the 2012~13 annual audit plan. The review sought to ensure that the system in place for journal transfers complied with control objectives; that each journal is uniquely referenced; includes adequate narrative explaining the transfer and are correctly authorised; that there is independent review of exceptions and the report tree and that Journals are not being actioned to prevent full authorisation of virements. The work undertaken by the External Auditors as part of their 2012~13 annual audit was considered as part of this review.

The review comprised examination of the Council’s procedures for the raising and posting of journals to the Agresso Financial Management System (FMS) to test for completeness and accuracy. . A sample of journals was examined to ensure that only authorised employees were creating them, with signatures confirming this. Once the journals are raised, checks were made to confirm that the transfers had been correctly posted into the Agresso (FMS) with supporting relevant documentation i.e. uniquely referenced with appropriate narrative. A report detailing journals raised and posted to Agresso (FMS) within Accountancy Team was examined to verify that they were reviewed by the Principal Accountant. The Accountancy journals, as selected for examination, dating between January to March 2013, were not printed of the Financial Management System for review and authorisation until 30th April 2013.

Conclusion:

On the basis of the work undertaken, the review concluded that on the whole the internal controls in place for the raising and posting of Journals to the Agresso (FMS) system is well managed. However, there were opportunities for improvement for which the implementation of the following recommendations will further enhance the system. The overall conclusion therefore, is that **SOME** assurance can be given on the internal controls in place for this processing and reconciliations of Journals within the financial records.

| | | |
|--|---|---|
| AUDIT REPORT TITLE: Corporate Creditors Compliance 2012~13 BUDGET: Various REF: | ACTION PLAN ISSUED: DRAFT REPORT DATE ISSUED: 9 th July 2013 FINAL REPORT ISSUED: 7 th October 2013 (Quarter 30.09.13) | DIRECORATE: Resources (Accountancy) RESPONSE RECEIVED: 24 th September 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 as part of the 2012-13 annual audit plan. The review concentrated on ensuring that the controls in place over the system for the payment of the Council’s creditors are operating as intended. The review comprised examination of the Council’s procedures for the ordering, processing and payment of invoices and that these procedures operate within current Contract Procedure Rules and Financial Regulations.

Testing was undertaken on samples of invoices processed for payment during September 2012 and January 2013. The detailed compliance testing ensured that official purchase orders were raised for all goods/services and invoices were bona fide and paid promptly. For one supplier payment it was found that the purchase order had been raised after the receipt of the goods, whilst payment for two other supplier invoices had been delayed due to the order of additional goods/services for which budget holder authorisation was required. In respect of all other paid invoices, all were made in a timely manner with all supporting documentation and authorisation being recorded on the system accurately. It was pleasing to note that suppliers are now opting to be paid by BACS as opposed to cheque which reduces the cost to the Council for the raising and processing of payments following a drive/promotion by the Accountancy Team.

Conclusion
 On the basis of the work undertaken, the review has concluded that the system for the ordering and payment of goods/services is operating well. There are areas where the system will be enhanced further with the implementation of the following recommendations. The overall conclusion therefore is that at this time **SOME** assurance can be given that the internal controls in place for the electronic ordering, processing and payment of Council invoices are operating effectively.

| | | |
|---|--|--|
| AUDIT REPORT TITLE: Corporate Creditors 2012-13 (Reconciliation and Systems) | ACTION PLANS: July 2012/January 2013 DRAFT REPORT DATE ISSUED: 9th July 2013 | SERVICE: Resources Directorate(Accountancy) |
| BUDGET: Various | FINAL REPORT ISSUED: 7th October 2013 (Quarter 30.09.13) | RESPONSE RECEIVED: 25th September 2013 |
| REF: | | |

| 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 concentrated on ensuring that the controls in place over the system for the payment of the Council’s creditors made via Accounts Payable within the Agresso Financial Management System are operating as intended. The review comprised examination of the creation of supplier accounts, system roles, responsibilities and exceptions along with Council’s reconciliation procedures incorporating unrepresented cheques,

It was recognised that the process in place for maintaining supplier accounts along with system roles and responsibilities are an onerous tasks which requires regular attention. There are a number of employees with system administrator rights. Whilst, this is not recommended good practice in the case of ICT security; the Financial Services Manager acknowledged and accepted the risks at the time of audit as the current arrangements allow for cover in the event of absence/special project work.. The reconciliation processes within the Accountancy and Support Services Teams is working effectively.

Advisory recommendations have been added regarding enhancing the information recorded within the creditor system with consideration being given to raising orders for revenue grants. Additionally improvements could be made to new supplier accounts set up; reducing the number of duplicated supplier details held on the Agresso Financial Management System and as previously recommended fully updating system documentation.

Currently the Agresso Financial Management System is under going a system review. During this time of transformational change the Accountancy Team are working with Internal Audit to ensure that efficiencies are being achieved and business improvements enhance the service delivery while addressing identified risks.

Conclusion

On the basis of the work undertaken, the review has concluded that there are areas where there are further opportunities for improvement. The overall conclusion therefore, is that at this time **SOME** assurance can be given that the internal controls in place for the system roles, electronic ordering, processing, payment and reconciliation of the Council’s Accounts Payable are operating effectively.

| | | |
|--|---|---|
| AUDIT REPORT TITLE: Corporate Debtors 2012-13 | ACTION PLAN ISSUED: 13.07.12 & 14.03.13 DRAFT REPORT ISSUED: 15 th July 2013 FINAL REPORT ISSUED: 4 th October 2013 (For Quarter to 30.09.13) | SERVICE: Accountancy RESPONSE RECEIVED: Action Plan 1 - 19.10.12, Action Plan 2 – 18.04.13 Draft Report: 25 th September 2013 |
| BUDGET: VARIOUS | | |
| REF: | | |

| 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 sought to ensure that the system in place for Sundry Debtors from the initial creation of a customer account through to the raising of a sundry debtor invoice for payment. The review also comprised examination of the Council's procedures for the reconciliation of the Debtors Control Account within the Agresso Financial Management System to both the independent Radius Cash Receipting system and Council bank accounts. A review was also undertaken on a number of invoices raised in April 2013 to ensure that the income had been accounted for in the appropriate financial year. Arrears monitoring and write-offs will be reported under separate cover as part of the Corporate Debt Recovery audit review.

During the course of the review two action plans were issued to the Financial Services Manager to advise of any matters arising during the period of testing in order that they may 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.

The Debtors Control (general ledger) & the Debtors Income (cash receipting) reconciliation for the months of May and October 2012 were examined in detail; this was supported by detailed compliance testing of 20 debtor invoices. The General Ledger reconciliations were found to have been completed accurately; the May reconciliation was slightly delayed but the October reconciliation was undertaken in a timely manner. The Cash Receipting reconciliation for May was found to be completed accurately however an unidentified difference (not materialistic) was identified on the October reconciliation and investigated by the Senior Accountancy Assistant. The sample of 20 Debtor accounts selected for testing ensured that invoices were raised promptly, with the correct approved amount being charged to the customer.

Conclusion:

The review concluded there are areas within the Debtors System that are well managed and controlled. Monthly reconciliations are completed however, improvements could be made to enhance the system by ensuring that debtor accounts are raised promptly prior to or immediately following the provision of the service to the customer. The overall conclusion therefore, is that **SOME** assurance can currently be given that the internal controls in place within the key system for Debtors are operating as intended.

| | | |
|--|---|---|
| AUDIT REPORT TITLE: Payroll Audit 2012-13 (Establishment Database) | DRAFT REPORT ISSUED: 21 st June 2013 | SERVICE: Community Assets & Localism (Human Resources) Resources Directorate - Accountancy (Establishment Check) |
| BUDGET: £6,373,719 (Actual Net Payroll 12~13) REF: VARIOUS | FINAL REPORT ISSUED: 19 th July 2013 | RESPONSE RECEIVED: 19 th July 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 as part of the Annual Internal Audit Plan 2012~13. The review sought to ensure that there is a system in place for the independent reconciliation of the Establishment as approved by Directors to the CHRIS Payroll computer application. Employee records maintained by Worcestershire County Council (WCC) Human Resources (HR) and Wyre Forest District Council Accountancy Team were examined as part of this testing. As previously reported a new self serve (HR21) payroll system is in development where WCC HR will be responsible for updating the establishment (Starter, Leaver and Transfer) information into the Personnel section of the CHRIS21 database for Wyre Forest District Council. This will automatically populate the payroll section of the same CHRIS21 system to ensure prompt and accurate payment to Employees and Members. Whilst it was anticipated that this would be in operation during 2012~13, this was still work in progress as at April 2013.

The internal controls in respect of Staff Record Forms for Starters, Leavers and Transfers have been reviewed under a separate audit and will be reported accordingly.

The Internal Audit check comprised a verification/reconciliation of:

The Budget Salary Estimates file / CHRIS payroll system (Electronic Funds Transfer).

The Salary Estimates file is revised annually in accordance with the Pay Budget Timetable and confirmed correct by each Head of Service for their relevant directorate at a point in time. The exercise is completed during late August/September each year to aid the setting of the annual budget. At the time of the audit review, all Directors had signed off their Establishments and supporting evidence sighted by Internal Audit. The Electronic Funds Transfer file (EFT) details all payments made in a particular month to WFDC employees. Detailed compliance Testing was undertaken to ensure that all employees receiving a salary in November 2012 were bona fide and included within the Accountancy establishment spreadsheet for the 2012~13 Budget cycle

Human Resources Database /Annual Accountancy Establishment Check/ CHRIS payroll system.

The HR Establishment database is independently checked against both the Accountancy data collated annually and also the data extracted from the Payroll system (CHRIS21) with Directors required to sign off their Establishments as they stand at the financial year end (31st March 2013). This had been completed by 24th May 2013 with supporting evidence provided to Internal Audit. Testing was undertaken to ensure that all employees receiving a salary in March 2013 were bona fide and in an established post as authorised by the Corporate Management Team as at year end.

Conclusion:

The review concluded that there is a system for the reconciliation of the Wyre Forest District Council establishment. The overall conclusion therefore, is that **SOME** assurance can be given on the internal controls in place for which implementation of the recommendations detailed below will further enhance the system.

| | | |
|--|---|--|
| AUDIT REPORT TITLE: Payroll Audit 2012-2013 {Compliance & Reconciliation} BUDGET: £6,373,719 (Estimated Net Payroll 2012-13) REF: VARIOUS | ACTION PLAN: 16th October 2012 DRAFT REPORT ISSUED: 18th July 2013 FINAL REPORT ISSUED: 9th October 2013 (Quarter 30.09.13) | SERVICE: Resources Directorate ~ Accountancy (Payroll) RESPONSE RECEIVED: Action Plan 26th November 2012 Draft Report 24th September 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 as part of the annual audit plan. The review sought to ensure that all input documents processed by WFDC were correct and refer to bona fide employees; that a monthly reconciliation is undertaken between the CHRIS 21 payroll system, the Agresso Financial Management system and the Council’s Bank Account. Both Human Resources and Payroll services are provided by external suppliers, Worcestershire County Council and Redditch Borough Council respectively, therefore, observations made in reference to the payroll processing to be addressed by Worcestershire County Council and Redditch Borough Council will be reported under separate cover.

RECONCILIATIONS

The payroll control reports were examined for the months of June and October 2012 and reconciled to the Agresso Financial Management System and the Council’s Bank Account. Both reconciliations had been completed in a timely manner. A minor formulae error was identified on the June reconciliation, this was promptly rectified. No errors were identified within the October reconciliation.

COMPLIANCE TESTING

Testing was undertaken on 22 employee’s salary/members payments over the financial year, ensuring that payments were made correctly to bona fide employees/Members. A check was undertaken to ensure that all input documentation prepared by WFDC was accurate and processed in a timely manner. Detailed compliance testing was undertaken on the June and October 2012 payroll runs. Following the initial phase of testing in June an action plan was issued to the WFDC Financial Services 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. Those recommendations actioned following the issue of the action plan are detailed below for completeness. Of the observations arising from the testing, an error was identified in respect of Unison deductions for one employee and the house hold allowance for home working for another. Clarification was sought on the payment of overtime/extended hours for an employee TUPE’d across from the Business Centres. Procedures were also reaffirmed for the prompt payment of salaries ensuing that timesheets are submitted on a monthly basis for those on temporary or casual contracts. During this review changes were made to the procedure for processing employee/member mileage and subsistence claims forms; these new changes will be reviewed under separate cover.

Conclusion:

The Human Resources service was transferred to the County Council in November 2010 and the Payroll Services to Redditch Borough Council from 1st April 2011, this report concentrated specifically of the Payroll processes undertaken by WFDC and has concluded that the areas assessed during the 2012-13 audit were generally found to be effective. However, there are areas where there are opportunities for improvement and where risks could be reduced. At the time of the audit review, **SOME** assurance could be given on the controls in place for the administration procedures however controls need to be tightened to ensure processes are operating as intended.

| | | |
|--|--|--|
| AUDIT REPORT TITLE: Procurement Cards (Corporate Spend) 2012~13 | DRAFT REPORT DATE ISSUED: 15th July 2013 | SERVICE: Resources Directorate |
| BUDGET: VARIOUS | FINAL REPORT ISSUED: 4th October 2013 (Quarter 30.09.13) | RESPONSE RECEIVED: 24th September 2013 |
| REF: | | |

| 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 the processes in place for the use of Procurement Cards are in accordance with Council Policy.

The review comprised of examining the procedures in place for the issuing / retrieval of procurement cards; coding and reconciling expenditure. Ensuring there is Guidance that covers the correct usage; card security; liability for any misuse and procedures for reporting lost or stolen cards that employees must sign.

An analysis of expenditure during the period April 2012 to March 2013 was carried out to ascertain the volume of use, level of expenditure and reason for opting for purchase by procurement card, ensuring all expenditure was appropriate The review also examined whether appropriate monthly limits were set for the individual card holders. .

A detailed analysis was undertaken of the authorisation schedules completed by the card holders and the supporting documentation supplied to Accountancy for the period October 2012 to January 2013 to ensure the correct treatment of VAT Where VAT had been itemised on the authorisation sheets there was supporting invoices/evidence showing a supplier’s VAT registration number to allow for the VAT element could be reclaimed. The Authorisation Sheet are received by the Accountancy Team prior to the payment date ensuring the Agresso Financial Management System is updated in a timely manner and therefore budgets are not overspent

Conclusion
 On the basis of the work undertaken, the review has concluded that the controls in place in respect of the management of Procurement Cards are working well. However, there were instances where the VAT element of expenditure had not been correctly recorded for which the implementation of the recommendations will strengthen procedures. In addition, there is also opportunity for business improvement with the advisory recommendation regarding the consideration of the appropriateness of current monthly limits and extending the number of cards issued.

The overall conclusion therefore, is that **SOME** assurance can be given that the internal controls in place in respect of Procurement Cards are operating effectively.

| | | |
|--|---|---|
| AUDIT REPORT TITLE: System Access – Cairo- 2012~13 (2013~14) BUDGET: Various REF: | Action Plan (Exit Meeting) 05.04.13 DRAFT REPORT DATE ISSUED: 24th July 2013 FINAL REPORT ISSUED: 20 th August 2013 | SERVICE: Community, Assets & Localism RESPONSE RECEIVED: 16 th August 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 2012~13 annual audit plan. The review sought to ensure that there are adequate controls in place over systems access/permissions to the Councils **Committee Assistance Internal Retrieval and Organisation** application that system access is recorded and appropriately granted, system administrators are appropriately trained, roles and permission are monitored and that employee access right set up and amendments for starters, leavers and transfers are controlled and recorded. The CAIRO application is a system used within the Democratic Services Team by both WFDC employees & members. Where necessary former employees, who have subsequently transferred to a shared service, are also granted appropriate access rights to the system.

A comparison was made between the CAIRO user list down loaded from the system, and the Councils current payroll files. The review identified that one user had since left the Council employ, and six users who are now part of a shared services run by neighbouring authorities; There is one key System Administrator and 6 other employees with full system administration rights plus one generic administrator role relating to ICT. During the audit review it was agreed with the System Administrator to remove the employee who has left the Council, limit the number of employees with full system administration rights and review the Generic users that had been created to enable testing and training of the application. Those users who had transferred to a shared service do require access to the application, but a review will be undertaken to establish their user requirements. In addition, there was an issue with the system not forcing users to change their passwords if their access rights/permissions had been reinstated and this was promptly raised with system support for the CAIRO application.

Conclusion
 On the basis of the work undertaken the review concluded that system access rights for the Cairo system are well managed however some improvements could be made to further enhance access security. The overall conclusion therefore, is that **SOME** assurance can currently be given that the internal controls in place for access to the CAIRO system are operating as intended.

SECTION 2

Quarter Report to the 30th September 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 | |
| CORE FINANCIAL SYSTEMS | | | | | | | |
| Council Tax (Gross Debit Reconciliation/Reconciliations 2012~13) | K | S | 1 | 1 | - | - | - |

SECTION 3

Quarter Report to the 30th September 2013

| DRAFT AUDIT REPORTS ISSUED IN THE QUARTER ENDED 30TH SEPTEMBER 2013 | | |
|---|----------------------|---------------------------------|
| TITLE | DATE OF ISSUE | CURRENT STATUS OF REPORT |
| - | - | - |

SECTION 4

Eight 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 2013~14 Annual Audit Plan for which formal reports will be presented to the Audit Committee in due course.

| WORK IN PROGRES AS AT 30TH SEPTEMBER 2013 | | |
|--|---|---|
| AUDIT REVIEW | DATE OF ISSUE Action Plan No 1 | DATE OF ISSUE Action Plan No 2 |
| <u>Core Financial Systems</u> | | |
| Bank Reconciliations (Quarter 2) ~ 2013/14 | - | 04.09.13 |
| Cash To Bank (Worcestershire HUB) (Quarter 1) ~ 2013/14 | 19.07.13 | - |
| Council Tax Compliance (Phase 1) ~ 2013/14 | 09.09.13 | - |
| Council Tax Reconciliations (Gross Debit) ~ 2013/14 | 09.09.13 | - |
| Council Tax Discounts/Overpayments (Phase 1 & Phase 2) | 24.07.13 | 09.09.13 |
| Housing Benefit Housing Allowance/Overpayments (Phase 1) ~ 2013/14 | 24.07.13 | - |
| NNDR Compliance (Phase 1) ~ 2013/14 | 09.09.13 | - |
| NNDR Reconciliations (Gross Debit) ~ 2013/14 | 26.07.13 | - |

SECTION 5

Performance Against Annual Plan For The Financial Year 2013/14

Quarter ended 30th September 2013

Year to 30th September 2013

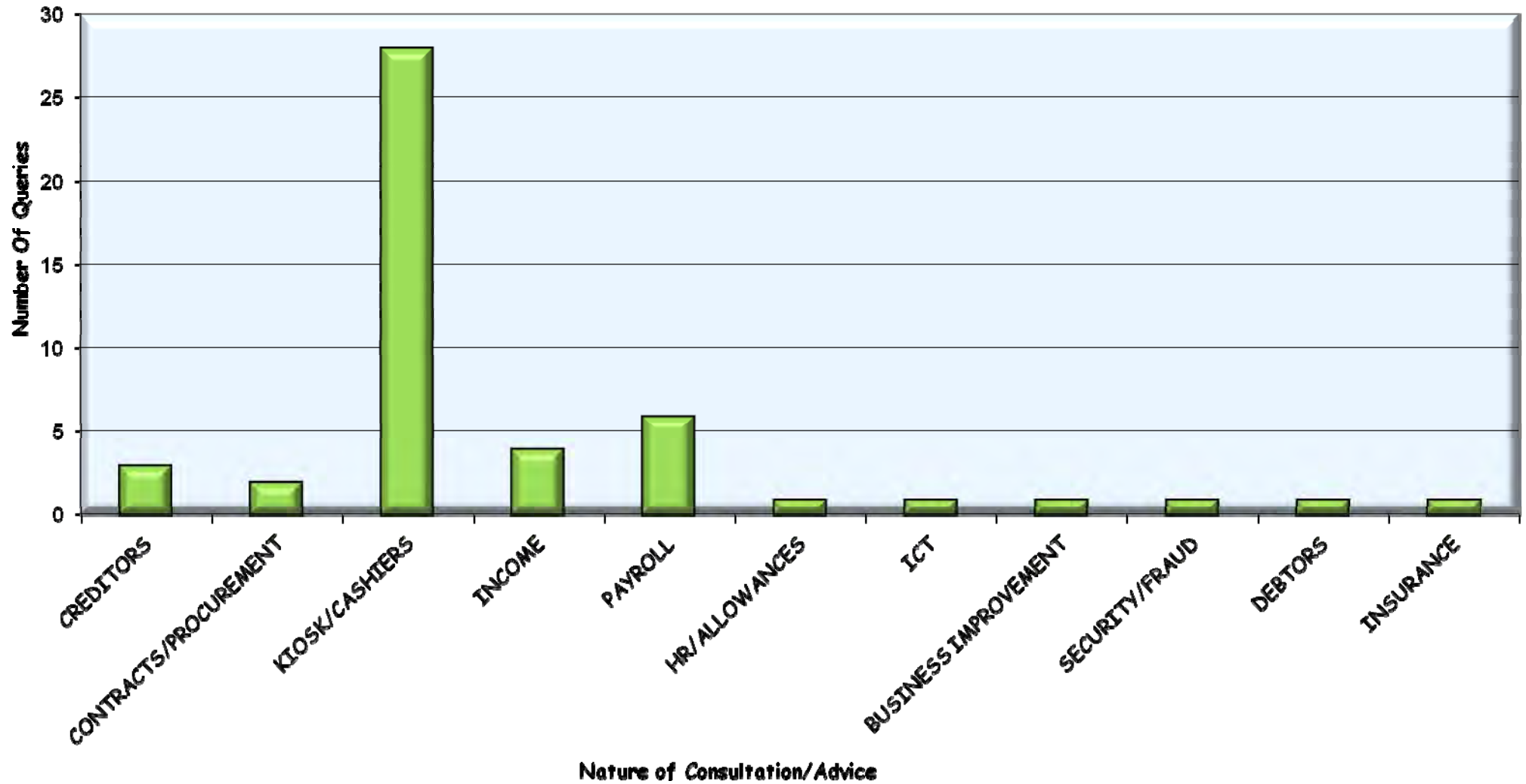
| | <u>Quarter Actual</u> | <u>Quarter Plan</u> | <u>Quarter Actual as a % of Plan</u> | | <u>Year Actual</u> | <u>Annual Plan</u> | <u>Year to Date Actual as a % of Plan</u> |
|-------------------------|-----------------------|---------------------|--------------------------------------|-------------------------|--------------------|--------------------|---|
| | <u>Days</u> | <u>Days</u> | <u>%</u> | | <u>Days</u> | <u>Days</u> | <u>%</u> |
| System and Probity | 104.50 | 93.75 | 111.47% | System and Probity | 202.50 | 375 | 54.00% |
| Computer Audit | 2.75 | 12.50 | 22.00% | Computer Audit | 7.00 | 50 | 14.00% |
| Contract Audit | 0.50 | 7.50 | 6.67% | Contract Audit | 10.75 | 30 | 35.83% |
| Consultancy and Advice | 12.50 | 12.50 | 100.00% | Consultancy and Advice | 20.75 | 50 | 41.50% |
| Irregularity | 1.50 | 5.00 | 30.00% | Irregularity | 6.50 | 20 | 32.50% |
| Specific Service Duties | 10.00 | 6.25 | 160.00% | Specific Service Duties | 14.75 | 25 | 59.00% |
| Sub Total | 131.75 | 137.50 | 95.82% | Sub Total | 262.25 | 550 | 47.68% |

TARGET 95.00%

Audit Resource Statistics

For the quarter to 30th September 2013 actual against plan is 95.8 % compared to a target of **95%**. Within the time allocated in the above table, during this second quarter of 2013~14 the Internal Audit Team have responded to 49 requests for advice and consultancy as categorised in the graph overleaf.

Summary of Audit Advice July to September 2013-14



WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
2nd DECEMBER 2013**The CIPFA Statement on the Role of the
Chief Financial Officer in Local Government**

| OPEN | |
|--|---|
| SUSTAINABLE COMMUNITY STRATEGY THEME: | Stronger Communities |
| CORPORATE PLAN PRIORITY: | Delivering Together with Less |
| CABINET MEMBER: | Councillor N J Desmond |
| RESPONSIBLE OFFICER: | S151 Officer |
| CONTACT OFFICER: | Tracey Southall, Ext. 2100 tracey.southall@wyreforestdc.gov.uk |
| APPENDICES: | Appendix 1 - Statement on the Role of the Chief Financial Officer in Local Government |

1. PURPOSE OF REPORT

As part of the Delivering Good Governance in Local Government, this report is to inform Members of the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Statement on the Role of the Chief Financial Officer in Local Government which advises on the best practice in terms of good governance in relation to the effective financial management of the Council. An assessment against this Statement is made for the Committee to consider.

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to NOTE as part of the Corporate Governance Framework the CIPFA Statement on the Role of the Chief Financial Officer in Local Government in relation to the post of the Section 151 Officer as attached at Appendix 1.**

3. BACKGROUND

- 3.1** CIPFA published a revised statement on the Role of the Chief Financial Officer (CFO) in Public Service Organisations in 2009. The statement is intended to apply to all public sector organisations and draws on established best practice, regulatory requirements along with the professional requirement of CIPFA to include codes of ethics and professional standards. This was followed in April 2010 with a CIPFA Statement on the Role of the Chief Finance Officer in Local Government which builds on the 2009 statement and applies the principles and roles to Local Government.
- 3.2** The Chief Financial Officer is a critical position within the Council. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a CFO to have responsibility for those arrangements.

- 3.3 The statement consists of five overarching principles supported by a good practice based framework checklist in relation to:-
- ➔ governance requirements;
 - ➔ core responsibilities of the Chief Financial Officer;
 - ➔ personal skills and professional standards.
- 3.4 The checklists based on the three principles set out above, are attached in full at Appendix 1 to this report for information. The core responsibilities of the CFO as well as the personal skills and professional standards required are detailed in the checklist and provide an important source of reference.
- 3.5 CIPFA recommends that organisations should use the statement as the framework to assess their existing arrangements and that they should report publicly on compliance to demonstrate their commitment to good practice. Furthermore it is a requirement to report publically where arrangements do not conform to the statement, explaining the reasons for non compliance and how they achieve the same impact.

4. KEY ISSUES

- 4.1 The CIPFA Statement sets out five “principles” as detailed below that define the core activities and behaviours of the role of the CFO and the organisational arrangements required to support them.
- ➔ The Chief Financial Officer (CFO) in a local authority is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority’s strategic objectives sustainably and in the public interest.
 - ➔ The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority’s overall financial strategy.
 - ➔ The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.
 - ➔ The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.
 - ➔ The CFO in a local authority must be professionally qualified and suitably experienced.
- 4.2 For each of the five principles listed above, the guidance provides a summary of the requirements and then sets out a list of governance requirements, the core CFO responsibilities and the personal skills and professional standards required.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising from this report.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs.

7. RISK MANAGEMENT

- 7.1 Although there are significant risks associated with a local authority not having professionally qualified and suitably experienced financial expertise to ensure proper administration of its financial affairs, the conclusion in paragraph 9.1 shows this Council complies fully with best practice so risk is mitigated.

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 Chief Executive has conducted a review of the current arrangements against the principles set out in the CIPFA Statement. And is satisfied we are in full compliance with the Statement. While pay for the Chief Financial Officer post differs from the other members of the Corporate Management Team following the recent management restructure, the post remains a full member of CMT and reports directly to the Chief Executive; and is actively involved in and able to bring influence to bear on all material business decisions. The management structure has not diluted the impact of the S151 post, in terms of ability to contribute to and influence CMT, Cabinet, Committee and Council debates. Where appropriate on items purely of a financial nature, the Chief Financial Officer would have preferred status and can report directly to Council, in accordance with the powers and duties conferred on the post by statute.

10. CONSULTEES

- 10.1 Corporate Management Team.
10.2 Cabinet Member.

11. BACKGROUND PAPERS

- 11.1 CIPFA Statement: The Role of the Chief Financial Officer in Local Government (2010).

GOOD PRACTICE BENCHMARK CHECKLIST

PRINCIPLE 1

The Chief Financial Officer (CFO) in a local authority is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.

Governance Requirements

Principle 1

- Set out a clear statement of the respective roles and responsibilities of the Leadership Team and its members individually.
- Ensure that the CFO reports directly to the Chief Executive and is a member of the Leadership Team with a status at least equivalent to other members.
- If different organisational arrangements are adopted, explain the reasons publicly, together with how these deliver the same impact.
- Determine a scheme of delegation and reserve powers, including a formal schedule of those matters specifically reserved for collective decisions by the Board, and ensure that it is monitored and updated.
- Ensure that authority's governance arrangements allow the CFO:
 - To bring influence to bear on all material business decisions; and
 - Direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit
- Review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised.
- Access the financial skills required by members of the leadership team and commit to develop those skills to enable their roles to be carried out effectively.

Core CFO Responsibilities

Principle 1

- Contributing to the effective leadership of the authority, maintaining focus on its purpose and vision through rigorous analysis and challenge.
- Contributing to the effective corporate management of the authority, including strategy implementation, cross organisational issues, integrated business and resource planning, risk management and performance management.
- Supporting the effective governance of the authority through development of
 - Corporate governance arrangements, risk management and reporting framework; and
 - Corporate decision making arrangements.
- Leading or promoting change programmes within the authority.
- Leading development of a medium term financial strategy and the annual budgeting process to ensure financial balance and a monitoring process to ensure its delivery.

Personal Skills and Professional Standards

Principle 1

- Role model, energetic, determined, positive, robust and resilient leadership, able to inspire confidence and respect, and exemplify high standards of conduct.
- Adopt a flexible leadership style, able to move through visioning to implementation and collaboration/consultation to challenge as appropriate.
- Build robust relationships both internally and externally.

- Work effectively with other Leadership Team members with political awareness and sensitivity.
 - Support collective ownership of strategy, risks and delivery.
 - Address and deal effectively with difficult situations.
 - Demonstrate best practice in change management and leadership.
 - Balance conflicting pressures and needs, including short and longer term trade- offs.
 - Demonstrate strong commitment to innovation and performance improvement.
 - Manage a broad portfolio of services to meet the needs of diverse communities.
 - Maintain an appropriate balance between the technical financial aspects of the CFO role and broader focus on the environment and stakeholder expectations and needs.
 - Comply with the IFAC Code of Ethics for Professional Accountants, as implemented by local regulations and accountancy bodies, as well as other ethical standards that are applicable to them by virtue of their professional status as a member of CIPFA or another accountancy institute. The fundamental principles set out in the Code are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. Impartiality is a further fundamental requirement of those operating in the public services.
-

PRINCIPLE 2

The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy.

Governance Requirements

Principle 2

- Establish a medium term business and financial planning process to deliver the authority's strategic objectives, including:
 - A medium term financial strategy to ensure sustainable finances;
 - A robust annual budget process that ensures financial balance;
 - A monitoring process that enables this to be delivered.
- Ensure that these are subject to regular review to confirm the continuing relevant of assumptions used.
- Ensure that professional advice on matters that have financial implications is available and recorded well in advance of decision making and used appropriately.
- Ensure that budget calculations are robust and reserves adequate, in line with CIPFA guidance.
- Ensure that those making decisions are provided with information that is fit for the purpose – relevant, timely and giving clear explanations of financial issues and their implications.
- Ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use.
- Ensure that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes

- corrective action when necessary.
- Ensure that advice is provide on the levels of reserves and balances in line with good practice guidance
- Ensure compliance with CIPFA's Code on a Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code.
- Ensure that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should apply consistently to all activities including partnership arrangements, outsourcing or where the authority is acting in an enabling role.
- Ensure the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority.

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| Core CFO Responsibilities | Principle 2 |
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Responsibility for financial strategy

- Agreeing the financial framework with sponsoring organisations and planning delivery against the defined strategic and operational criteria.
- Maintaining a long term financial strategy to underpin the authority's financial viability within the agreed performance framework.
- Implementing financial management policies to underpin sustainable long-term financial health and reviewing performance against them.
- Appraising and advising on commercial opportunities and financial targets.
- Developing and maintaining an effective resource allocation model to deliver business priorities.
- Leading on asset and balance sheet management.
- Co-ordinating the planning and budgeting processes.

Influencing decision making

- Ensuring that opportunities and risks are fully considered and decisions are aligned with the overall financial strategy.
- Providing professional advice and objective financial analysis enabling decision makers to take timely and informed business decisions.
- Ensuring that efficient arrangements are in place and sufficient resources available to provide accurate, complete and timely advice to support councillors' strategy development.
- Ensuring that clear, timely, accurate advice is provided to the executive in setting the funding plan/budget.
- Ensuring that advice is provided to the scrutiny function in considering the funding plan/budget.
- Ensuring that the authority's capital projects are chosen after appropriate value for money analysis and evaluation using relevant professional guidance.
- Checking, at an early stage, that innovative financial approaches comply with regulatory requirements.

Financial information for decision makers

- Monitoring and reporting on financial performance that is linked to related performance information and strategic objectives that identifies any necessary corrective decisions.
- Preparing timely management accounts.
- Ensuring the reporting envelope reflects partnerships and other arrangements to give an overall picture.

Personal Skills and Professional Standards

Principle 2

- Take all reasonable steps to ensure that:-
 - Budgets are planned as an integral part of the strategic and operational management of the authority and are aligned with its structure of managerial responsibilities.
 - Budgets are constructed on the basis of reliable data of past performance and rigorous assessments of future resources and commitments, and that policies and priorities are evaluated in an open, consistent and thorough manner.
 - Responsibilities for budget management and control are unambiguously allocated, that commitments are properly authorised, and that budgets are related to clear objectives and outputs.
 - The accounting and financial information systems make available, at the relevant time to all users, the appropriate information for their responsibilities and for the objectives of the authority.
 - Implement other appropriate management, business and strategic planning techniques.
 - Link financial strategy and overall strategy.
 - Demonstrate a willingness to take and stick to difficult decisions – even under pressure.
 - Take ownership of relevant financial and business risks.
 - Network effectively within the authority to ensure awareness of all material business decisions to which CFO input may be necessary.
 - Role model persuasive and concise communication with a wide range of audiences internally and externally.
 - Provide clear, authoritative and impartial professional advice and objective financial analysis and interpretation of complex situations.
 - Apply relevant statutory, regulatory and professional standards both personal and organisational.
 - Demonstrate a strong desire to innovate and add value.
 - Challenge effectively, and give and receive constructive feedback.
 - Operate with sensitivity in a political environment.
-

PRINCIPLE 3

The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

Governance Requirements

Principle 3

- Make the CFO responsible for ensuring that appropriate advice is given on all financial matters, for keeping financial records and accounts, and for maintaining an effective system of financial control.
- Ensure that systems and processes for financial administration, financial control and protection of the authority's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.
- Ensure that the authority puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes.

Ensuring that these controls are an integral part of the authority's underlying framework of corporate governance and that they are reflected in its local code.

- Address the authority's arrangements for financial and internal control and for managing risk in Annual Governance Reports.
- Publish annual accounts on a timely basis to communicate the authority's activities and achievements, its financial position and performance.
- Ensure an effective internal audit function is resourced and maintained.
- Develop and maintain an effective Audit Committee.
- Ensure that the authority makes best use of resources and that taxpayers and/or service users receive value for money.
- Embed financial competencies in person specifications and appraisals.
- Assess the financial skills required by managers and commit to develop those skills to enable their roles to be carried out effectively.
- Ensure that councillors' roles and responsibilities for monitoring financial performance/budget management are clear, that they have adequate access to financial skills, and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities.

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| Core CFO Responsibilities | Principle 3 |
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Promotion of financial management

- Assessing the authority's financial management style and the improvements needed to ensure it aligns with the authority's strategic direction.
- Actively promoting financial literacy throughout the authority.
- Assisting the development of a protocol which clearly sets out the roles and responsibilities of both democratically elected councillors, whether acting in executive or scrutiny roles, and of offices for financial management, including delegated authority/powers.

Value for money

- Challenging and supporting decision makers, especially on affordability and value for money, by ensuring policy and operational proposals with financial implications are signed off by the finance function.
- Advising on the financial thresholds for "key" decisions where there is a requirement to do so.
- Developing and maintaining appropriate asset management and procurement strategies.
- Managing long term commercial contract value.

Safeguarding public money

- Applying strong internal controls in all areas of financial management, risk management and asset control.
- Signing the authority's published statement on internal financial control in line with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom.
- Establishing budgets, financial targets and performance indicators to help assess delivery.
- Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.
- Ensuring that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice.
- Ensuring that delegated financial authorities are respected.

- Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance.
- Overseeing of capital projects and post completion reviews.
- Applying discipline in financial management, including managing cash and banking, treasury management, debt and cash flow, with appropriate segregation of duties.
- Ensuring the effective management of cash flows, borrowings and investments of the authority's own funds or the pension and trust funds it manages on behalf of others; ensuring the effective management of associated risks; pursuing optimum performance or return consistent with those risks.
- Implementing appropriate measures to prevent and detect fraud and corruption.
- Establishing proportionate business continuity arrangements for financial processes and information.
- Ensuring that any partnership arrangements are underpinned by clear and well documented internal controls.

Assurance and scrutiny

- Reporting performance of both the authority and its partnerships to the board and other parties as required.
- Ensuring that financial and performance information presented to members of the public, the community and the media covering resources, financial strategy, service plans, targets and performance is accurate, clear, relevant, robust and objective.
- Supporting and advising the Audit Committee and relevant scrutiny groups.
- Ensuring that clear, timely, accurate advice is provided to the executive and the scrutiny functions on what considerations can legitimately influence decisions on the allocation of resources, and what cannot.
- Preparing published budgets, annual accounts and consolidation data for government-level consolidated accounts.
- Ensuring that the financial statements are prepared on a timely basis, meet the requirements of the law, financial reporting standards and professional standards as reflected in the Code of Practice on Local Authority Accounting in the United Kingdom developed by the CIPFA/LASAAC¹ Joint Committee.
- Certifying the annual statement of accounts.
- Ensuring that arrangements are in place so that other accounts and grant claims (including those where the authority is the accountable body for community led projects) meet the requirements of the law and of other partner organisations and meet the relevant terms and conditions of schemes.
- Liaising with the external auditor.

Personal Skills and Professional Standards

Principle 3

- CFOs should take all reasonable steps to ensure that:
 - effective systems and procedures operate to monitor progress against budgets and their objectives at regular intervals, and that appropriate reporting mechanisms are in place.
 - that payments, including benefits and taxation, are made on time, accurately and in accordance with legal requirements.

¹ Chartered Institute of Public Finance & Accountancy (CIPFA)/Local Authority (Scotland) Accounts Advisory Committee

- Cash is handled with special care to avoid loss, particularly loss through theft and secure arrangements are in place to deal with the handling of electronic or other cash-less transactions.
 - the accounting and financial information systems provide an accessible, complete, comprehensive, consistent and accurate record of the authority's financial transactions.
 - all financial reports are relevant, reliable and consistent, are compatible with the authority's accounting and financial information systems available, at the relevant time to all users, the appropriate information for their responsibilities and for the objectives of the authority.
 - Within the specific legislative framework for each authority, systems exist to secure the efficient and effective management of taxes, in particular to ensure that tax liabilities and obligations are properly reported and accounted for and to prevent any tax losses.
 - Treasury management is carried out in accordance with CIPFA's treasury management code and that effective treasury management arrangements are in place.
- Generate 'buy-in' to, and support delivery of, good financial management across the authority.
 - Develop and sustain partnerships, and engage effectively in collaboration.
 - Deploy effective facilitation and meeting skills.
 - Build and demonstrate commitment to continuous improvement and innovative, but risk-aware, solutions.
 - Place stewardship and probity as the bedrock for management of the authority's functions.
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PRINCIPLE 4

The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.

| | |
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| Governance Requirements | Principle 4 |
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- Provide the finance function with the resources, expertise and systems necessary to perform its role effectively.
- Ensure that there is a line of professional accountability to the CFO for finance staff throughout the authority.

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| Core CFO Responsibilities | Principle 4 |
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- Leading and directing the finance function so that it makes a full contribution to and meets the needs of the business.
- Determining the resources, expertise and systems for the finance function that are sufficient to meet business needs and negotiating these within the overall financial framework.
- Implementing robust processes for recruitment of finance staff and/or outsourcing of functions.
- Reviewing the performance of the finance function and ensuring that the services provided are in line with the expectations and needs of its stakeholders.
- Seeking continuous improvement in the finance function.
- Identifying and equipping finance staff, managers and the Leadership Team with the financial competencies and expertise needed to manage the business

both currently and in the future.

- Ensuring that the Head of Profession role for all finance staff in the authority is properly discharged.
- Acting as the final arbiter on application of professional standards.

Personal Skills and Professional Standards

Principle 4

- Create, communicate and implement a vision for the finance function.
- Role model a customer focussed culture within the finance function.
- Establish an open culture, built on effective coaching and a “no blame” approach.
- Promote effective communication with the finance department, across the broader authority and with external stakeholders.
- Apply strong project planning and process management skills.
- Set and monitor meaningful performance objectives for the finance team.
- Role model effective staff performance management.
- Coach and support staff in both technical and personal development.
- Promote high standards of ethical behaviour, probity, integrity and honesty.
- Ensure, when necessary, that outside expertise is called upon for specialist advice not available within the finance function.
- Promote discussion on current financial and professional issues and their implications.

PRINCIPLE 5

The CFO in a local authority must be professionally qualified and suitably experienced.

Governance Requirements

Principle 5

- Appoint a professionally qualified CFO whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the authority.
- Ensure that the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non-financial areas of their role.

Personal Skills and Professional Standards

Principle 5

- Be a member of an accountancy body recognised by the International Federation of Accountants (IFAC), qualified through examination, and subject to oversight by a professional body that upholds professional standards and exercises disciplinary powers.
- Adhere to international standards set by IFAC on:
 - Ethics
 - Continuing Professional Development.Demonstrate IT literacy.
- Have relevant prior experience of financial management in the public services.
- Understand public service finance and its regulatory environment.
- Apply the principles of public financial management.
- Understand personal and professional strengths.
- Undertake appropriate development or obtain relevant experience in order to meet the requirements of the non-financial areas of the role.

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
2nd DECEMBER 2013**Compliance with the CIPFA Statement on the Role of the Head of Internal Audit
in Public Sector Organisations**

| OPEN | |
|--|--|
| SUSTAINABLE COMMUNITY STRATEGY THEME: | Stronger Communities |
| CORPORATE PLAN PRIORITY: | Delivering Together with Less |
| CABINET MEMBER: | Councillor N J Desmond |
| RESPONSIBLE OFFICER: | S151 Officer |
| CONTACT OFFICER: | Tracey Southall, Ext. 2100 tracey.southall@wyreforestdc.gov.uk Cheryl Ellerton, Ext. 2116 cheryl.ellerton@wyreforestdc.gov.uk |
| APPENDICES: | Appendix 1 - Statement on the Role of the Head of Internal Audit in Public Sector Organisations |

1. PURPOSE OF REPORT

As part of the Delivering Good Governance in Local Government, this report is to inform Members of the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Statement on the Role of the Head of Internal Audit in Public Sector Organisations and of the results of an assessment against this statement undertaken by the Principal Auditor.

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to NOTE the results of the assessment against the CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations as attached at Appendix 1.**

3. BACKGROUND

- 3.1** In December 2010 CIPFA published a draft statement on the Role of the Head of Internal Audit in Public Sector Organisations. Following a consultation period, the final statement was published in May 2011. It was intended that a local government specific statement would be published; however the decision was taken to apply this statement across the whole sector.
- 3.2** The Head of Internal Audit (HIA) has a critical role in any organisation, providing objective assurance and helping the organisation to achieve its objectives. The statement is intended to raise the profile and clarify the role of the Head of Internal Audit (HIA). It details best practice for HIA's and enables the service of Internal Audit to be measured.

- 3.3 The statement sets out an overarching principle-based framework, which is intended to apply to all HIA's in the UK, irrespective of the particular public sector area they work in. It draws on the best practice and regulatory requirements in public services, as well as the requirements of CIPFA and other professional accountancy bodies, and the Institute of Internal Auditors' codes of ethics and professional standards.
- 3.4 CIPFA recommends that organisations should use the statement as the framework to assess their existing arrangements and that they should report publicly on compliance to demonstrate their commitment to good practice. Furthermore it is a requirement to report publically where arrangements do not conform to the statement, explaining the reasons for non compliance and how they achieve the same impact. The outcome of the existing arrangements with proposed actions for non compliance are detailed in the appendix to this report.

4. KEY ISSUES

- 4.1 The CIPFA Statement sets out five “principles” as detailed below that define the core activities and behaviours of the role of the HIA, and the organisational arrangements required to support them.

The Head of Internal Audit in a public service organisation plays a critical role in delivering the organisation’s strategic objectives by:

- ⇒ Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
- ⇒ Giving an objective and evidenced based opinion on all aspects of governance, risk management and internal control.

To perform this role the Head of Internal Audit must:

- ⇒ Be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee.
- ⇒ Lead and direct an internal audit service that is resourced to be fit for purpose.
- ⇒ Must be professionally qualified and suitably experienced.

- 4.2 For each of the five principles listed above, the guidance provides a summary of the requirements and then sets out a list of governance requirements, the core HIA responsibilities and the personal skills and professional standards required.

5. FINANCIAL IMPLICATIONS

- 5.1 The costs of the Internal Audit section are provided for within the Council's approved budget.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 The requirement for an internal audit function is contained within Section 151 of the Local Government Act 1972 that requires local authorities to “make arrangements for the proper administration of their financial affairs”. The Council has delegated these powers to the Chief Financial Officer¹ as provided in the Council's Constitution – Financial Procedure Rules (Financial Regulations) section 11.1.

¹ Previously Director of Resources

- 6.2 More specifically the Accounts and Audit (England) Regulations 2011 require local authorities to:

“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”.

7. RISK MANAGEMENT

- 7.1 In order to comply with the appropriate legislation the internal audit section operates in accordance with the CIPFA code. The arrangements are continually monitored to ensure compliance.
- 7.2 The Internal Audit service is one element of the Council’s assurance/internal control framework. Internal audit 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. The role contributes effectively to the risk management of the Council.

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 results of the assessment are as reported in the attached appendix. The results are sound overall; there is only 1 area of non compliance and although there are some areas of part compliance, these are not of immediate concern. Those areas where there is part or non compliance will be reviewed and the outcome reported to a future audit committee.

10. CONSULTEES

- 10.1 Corporate Management Team.
10.2 Cabinet Member for Resources & Transformation.

11. BACKGROUND PAPERS

- 11.1 Accounts and Audit (England) Regulations 2011 (SI 817).
11.2 CIPFA Statement: The Role of the Head of Internal Audit (2010).

| CORE RESPONSIBILITIES, PERSONAL SKILLS AND PROFESSIONAL STANDARDS | YES | PART | NO | COMMENTS |
|--|-----|------|----|--|
| PRINCIPLE 1: The HIA in a public service organisation plays a critical role in delivering the organisation’s strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments. | | | | |
| Does the HIA help to promote the benefits of good governance throughout the organisation? | √ | | | As part of the quarterly monitoring reports to CMT and the Audit Committee. Annual report/review of the effectiveness of the Council’s corporate governance arrangements. |
| Does the HIA work with others in the organisation who have a responsibility for promoting good governance? | √ | | | Reports directly to the S151 Officer (Chief Financial Officer) with access to the Chief Executive. In the event of a conflict of interest with another service managed by the Chief Financial Officer, reports directly to the Monitoring Officer. |
| Does the HIA give advice to the Leadership Team and others on the control arrangements and risks relating to proposed policies, programmes and projects? | | √ | | Under consultation when requested with involvement with special projects upon request. General advice and consultancy e.g. review of procedures including financial procedure rules and implementation of financial management standards. |
| Does the HIA promote the highest standards of ethics and standards across the organisation based on the principles of integrity, objectivity, competence and confidentiality? | √ | | | As reflected in the conduct of the Internal Audit Team and the Terms of Reference for Internal Audit. |
| Does the HIA demonstrate the benefits of good governance for effective public service delivery and how the Head of Internal Audit (HIA) can help? | | √ | | Presentation to Members. Need to continue to promote the Internal Audit Service with Managers and Colleagues. |
| Does the HIA offer consultancy advice where the HIA considers that it is appropriate, drawing up clear terms of reference for such assignments? | √ | | | Provided as part of individual audit assignments, also offer an ad-hoc consultancy and advisory service which is reported to the Audit Committee. |
| Does the HIA provide leadership by giving practical examples of good governance that will inspire others? | √ | | | Best practice advice is provided through all internal audit planned reviews supported by the ad-hoc advice and consultancy service. |
| Does the HIA deploy effective facilitating and negotiating skills? | √ | | | Evidenced in Audit Reports |
| Does the HIA build and demonstrate commitment to continuous Improvement? | √ | | | HIA attends regular updates, participates in professional CPD scheme has recently gained affiliated membership of the IIA. |
| Does the HIA demonstrate consultancy skills as appropriate – analytical, problem solving, influencing and communicating? | √ | | | |

| CORE RESPONSIBILITIES, PERSONAL SKILLS AND PROFESSIONAL STANDARDS | YES | PART | NO | COMMENTS |
|--|-----|------|----|--|
| PRINCIPLE 2: The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control. | | | | |
| Does the HIA give assurance on the control environment. This includes risk and information management and internal controls across all systems? | | √ | | Not directly responsible for Risk Management. Provides support to the Chief Financial Officer responsible for Risk Management. Planned Internal Audit reviews acknowledge controls risks at an operation level. |
| Does the HIA review the adequacy of key corporate arrangements including eg risk strategy, risk register, anti fraud and corruption strategy, corporate plan? | | √ | | Risk Strategy/Risk Register reviewed as part of the planned Internal Audit reviews. Anti Fraud & Corruption policies reviewed every 5 years. Next review due 2013. |
| Does the HIA produce an evidence based annual internal audit opinion on the organisation's control environment? | √ | | | An annual report to the Audit Committee~June |
| Does the HIA work closely with others to ensure that sufficient and relevant evidence is used. Where relying on others, clarifying the degree and basis for the reliance? | | √ | | External Audit have previously placed reliance on the work of Internal Audit and a close working relationship will continue. Assurance mapping to be applied in preparing future Annual Internal Audit plans. |
| Does the HIA review significant partnership arrangements and major services provided by third parties and the controls in place to promote and protect the organisation's interests. Assessing whether lines of responsibility and assurance are clear? | | √ | | When subject to a specific internal audit review i.e. Payroll. This responsibility may increase in the near future given the pace of change in service commissioning. |
| Does the HIA liaise closely with the external auditor to share knowledge and to use audit resources most effectively? | √ | | | External Audit have previously placed reliance on the work of Internal Audit and a close working relationship will continue. |
| Does the HIA produce an internal audit strategy that fits with and supports the organisation's objectives? | √ | | | Terms of Reference/Audit Strategy reviewed 2011. To be reviewed and an Audit Charter to be presented to the Audit Committee ~ March 2014 Internal Audit Strategic Plan 2012~15 |
| Does the HIA review the organisation's risk maturity (including the organisation's own assessment) and reflecting this in the strategy? | | √ | | Will be considered as part of the assurance mapping and strategic planning exercise for the 2014~15 Internal Audit Plan. |
| Does the HIA consult stakeholders, including senior managers and non-executive directors/elected representatives on the internal audit strategy? | √ | | | CMT/Audit Committee |
| Does the HIA set out how the HIA plans to rely on others for assurance on the organisation's controls and risks and taking account of any limitations in assurance given by others? | | √ | | Will be considered as part of the assurance mapping and strategic planning exercise for the 2014~15 Internal Audit Plan. |

| CORE RESPONSIBILITIES, PERSONAL SKILLS AND PROFESSIONAL STANDARDS | YES | PART | NO | COMMENTS |
|--|-----|------|----|---|
| Does the HIA liaise with external inspectors and review agencies where appropriate when drawing up the internal audit strategy? | | | √ | To be further developed as part of the assurance mapping exercise. Work required understanding assurances available for Internal audit to be in a position to place reliance. Timing of audit reviews will then give consideration to the timing of external reviews e.g. Electoral Commission. This non compliance has not had an adverse impact on the Internal Audit function for WFDC. The council is a small district which limits scope. |
| Does the HIA liaise with the external auditor on the internal audit strategy, but not being driven by external audit's own priorities? | √ | | | Shared with the External Auditors |
| Does the HIA give clear, professional and objective advice? | √ | | | |
| Does the HIA report on what is found, without fear or favour? | √ | | | |
| Does the HIA demonstrate integrity to staff and others in the organisation? | √ | | | |
| Does the HIA exercise sound judgement in identifying weaknesses in the organisation's control environment and a balanced view on how significant these are? | √ | | | Recommendations prioritised on risk with four levels of assurance provided to Management of the soundness of systems. |
| Does the HIA work well with others with specific responsibilities for internal control, risk management and governance including (as appropriate to the sector) Chief Executive, Chief Legal Officer, Chief Financial Officer, Audit Committee, non-executive directors/elected representatives? | √ | | | Reports directly through the S151 Officer to CMT. Directly reports to the Chief Executive as necessary. Key officer lead to the Audit Committee for Internal Audit. |
| Does the HIA have concern for action - influencing the Leadership Team, Audit Committee and others to ensure that the HIA's recommendations are implemented? | √ | | | Quarterly reports are presented to CMT and the Audit Committee. Continuous monitoring of recommendations awaiting implementation. |
| Is the HIA a role model, dynamic, determined, positive, robust and with resilient leadership, able to inspire confidence and respect and exemplify high standards of conduct? | √ | | | |
| PRINCIPLE 3: The HIA in a public service organisation must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee. | | | | |
| Does the HIA escalate any concerns through the line manager, Chief Executive, Audit Committee and Leadership Team, legal officers, external auditor as appropriate? | √ | | | |
| Does the HIA support the Audit Committee in reviewing its own effectiveness and advising the Chair and line manager of any suggested improvements? | √ | | | Through the S151 Officer (Chief Financial Officer) Reports directly to Audit Committee. |

| CORE RESPONSIBILITIES, PERSONAL SKILLS AND PROFESSIONAL STANDARDS | YES | PART | NO | COMMENTS |
|--|-----|------|----|---|
| Does the HIA consult stakeholders, including senior managers and non-executive directors/elected representatives on the internal audit strategy? | √ | | | Through the S151 Officer to CMT. Key Officer supports the Audit Committee. |
| Does the HIA network effectively to raise the profile and status of internal audit? | √ | | | Internal Audit involved in internal working group e.g. ICT Strategy Board. Internal Audit page on the Intranet. Need to continue to promote the Internal Audit Service with Managers and Colleagues. |
| Does the HIA adopt a flexible style, being able to collaborate and advise but also able to challenge as appropriate? | √ | | | Combines compliance with more collaborative advisory role to meet business needs. |
| Does the HIA build productive relationships both internally and Externally? | √ | | | Involvement with internal working groups e.g. ICT Strategy Board, attend as a representative on project boards as requested. Member of the Midland Audit Group to share best practice on a wider scale. |
| Does the HIA work effectively with the Leadership Team and Audit Committee with political awareness and sensitivity? | | √ | | Through the S151 Officer (Chief Financial Officer) |
| Is the HIA seen to be objective and independent but also pragmatic where appropriate? | √ | | | Advisory work demonstrates this. |
| PRINCIPLE 4: The HIA in a public service organisation must lead and direct an internal audit service that is resourced to be fit for purpose. | | | | |
| Does the HIA lead and direct the internal audit service so that it makes a full contribution to and meets the needs of the organisation and external stakeholders? | √ | | | Through the Internal Audit Plan. Risk based auditing with assurance mapping will be developed further. |
| Does the HIA determine the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit's objectives; using a full range of resourcing options including consultancy, working with others and buying in where appropriate? | √ | | | |
| Does the HIA inform the Leadership Team and Audit Committee if there are insufficient resources to carry out a satisfactory level of internal audit, and the consequence for the level of assurance that may be given? | √ | | | Strategic and Annual Audit Plans supported by the quarterly monitoring reports to CMT and the Audit Committee make reference to any resource issues. |
| Does the HIA implement robust processes for recruitment of internal audit staff and/or the procurement of internal audit services from external suppliers? | √ | | | In conjunction with Worcestershire County Council HR Team |
| Does the HIA ensure that the professional and personal training needs for staff are assessed and seeing that these needs are met? | √ | | | Personal Development Reviews ~ annually. Supported by CIPFA's Excellent Internal Auditor" skills assessment. |

| CORE RESPONSIBILITIES, PERSONAL SKILLS AND PROFESSIONAL STANDARDS | YES | PART | NO | COMMENTS |
|---|-----|------|----|---|
| Does the HIA develop succession plans and help staff with their career progression? | √ | | | Personal Development Reviews ~ annually. Supported by CIPFA's Excellent Internal Auditor" skills assessment. |
| Does the HIA establish a quality assurance and improvement programme that includes: – Ensuring that professional internal audit standards are complied with. – Reviewing the performance of internal audit and ensuring that the service provided is in line with the expectations and needs of its stakeholders. – Providing an efficient and effective internal audit service – demonstrating this by agreeing key performance indicators and targets with the line manager and Audit Committee; annually reporting achievements against targets. – Putting in place adequate ongoing monitoring and periodic review of internal audit work and supervision and review of files, to ensure that audit plans, work and reports are evidence based and of good quality. – Ensuring that any internal auditors declare any interests that they have. – Seeking continuous improvement in the internal audit service. | √ | | | Compliant with CIPFA Code of Practice for Internal Audit 2006. UK Public Sector Internal Audit Standards 2013 replace the CIPFA code. Self Assessment to be completed against the Standards with report to Audit Committee. Internal Audit Manual to be reviewed in view of UK Public Sector Internal Audit Standards. Monthly meetings with Internal Audit Team to continually monitor internal audit methodology/working practices. Principal Auditor reviews final reports pre issue to Managers. |
| Does the HIA keep up to date with developments in governance, risk management, control and internal auditing, including networking with other HIAs and learning from them, implementing improvements where appropriate? | √ | | | MAAT and affiliate member of IIA.(CPD requirements) Member of the Midlands Chief Audit Group to share best practice. WFDC member of TIS-Online(CIPFA technical service) all Internal Audit team members receive regular updates taking forward developments in Internal Audit. |
| Does the HIA demonstrate how internal audit adds value to the Organisation? | √ | | | Annual Audit Report. |
| Does the HIA demonstrate leadership and be an ambassador for internal audit? | | √ | | Member Training Sessions. Need to further promote the Internal Audit Team with the introduction of an Audit Charter to Colleagues. |
| Does the HIA create, communicate and implement a vision for the internal audit service? | | √ | | Need to further promote the Internal Audit Team with the introduction of an Audit Charter to Colleagues. |
| Does the HIA create a customer focused internal audit service? | | √ | | Consult on Internal Audit Plan with CMT. Look to consult with Managers. |
| Does the HIA establish an open culture, built on effective coaching and a constructive approach? | √ | | | |
| Does the HIA promote effective communication within internal audit, across the broader organisation and with external stakeholders? | √ | | | Team Meetings. 1-2-1 with S151 Officer (Chief Financial Officer) Liaison with External Audit |

| CORE RESPONSIBILITIES, PERSONAL SKILLS AND PROFESSIONAL STANDARDS | YES | PART | NO | COMMENTS |
|---|-----|------|----|--|
| | | | | Presentations to Members (Formal Training) |
| Does the HIA set and monitor meaningful performance objectives for Staff? | √ | | | One PI set by the Audit Committee. Monitored by the quarterly monitoring reports to the Audit Committee. |
| Does the HIA manage and coach staff effectively? | √ | | | |
| Does the HIA comply with professional standards and ethics? | √ | | | Affiliate member of IIA working to Code of Ethics and Code of Professional Conduct. |
| Does the HIA require the highest standards of ethics and standards within internal audit based on the principles of integrity, objectivity, competence and confidentiality. In particular, ensuring that internal auditors identify and report any conflicts of interest and act appropriately? | √ | | | Affiliate member of IIA working to Code of Ethics and Code of Professional Conduct. |
| Does the HIA ensure, when necessary, that outside expertise is called upon for specialist advice not available within the internal audit service? | √ | | | If required. |
| Does the HIA promote discussion on current governance and professional issues and their implications? | √ | | | Via the Midland Audit Group to share best practice. |
| PRINCIPLE 5: The HIA in a public service organisation must be professionally qualified and suitably experienced. | | | | |
| Is the HIA a full member of an appropriate professional body and have an active programme for personal professional development? | | √ | | MAAT. IIA affiliated member. (CPD requirements) No formal programme of personal professional development. Receive regular updates form TIS online and IIA, network groups will attend training as and when considered necessary. Attend Cipfa Audit Training Seminars (Autumn) Employee Development Review |
| Does the HIA adhere to professional internal auditing (and where appropriate accounting and auditing) standards? | √ | | | Risk based auditing needs to be further developed and embedded. |
| Does the HIA demonstrate a range of skills including communicating, managing and influencing, as well as an understanding of IT and consultancy? | √ | | | |
| Does the HIA have prior experience of working in internal audit? | √ | | | Principal Auditor 24 Years with WFDC |
| Does the HIA understand and have experience of strategic objective setting and management? | √ | | | Experience of development of service plans and performance management frameworks. |

| CORE RESPONSIBILITIES, PERSONAL SKILLS AND PROFESSIONAL STANDARDS | YES | PART | NO | COMMENTS |
|--|-----|------|----|---|
| | | | | |
| Does the HIA understand the internal audit and regulatory environment applicable to public service organisations? | √ | | | |
| Does the HIA demonstrate a comprehensive understanding of governance, risk management and internal control? | √ | | | |
| Does the HIA undertake appropriate development or obtain relevant experience as appropriate in order to demonstrate an understanding of the full range of the organisation's activities and processes? | √ | | | Training as and when required. Access to internal reports e.g. cabinet papers, CMT actions logs. Assurance mapping exercise and general networking of audit groups. |

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
2nd DECEMBER 2013**Internal Audit**
Public Sector Internal Audit Standards 2013

| OPEN | |
|--|---|
| SUSTAINABLE COMMUNITY STRATEGY THEME: | Stronger Communities |
| CORPORATE PLAN PRIORITY: | Delivering Together with Less |
| CABINET MEMBER: | Councillor N J Desmond |
| RESPONSIBLE OFFICER: | S151 Officer |
| CONTACT OFFICER: | Tracey Southall, Extension No. 2100 tracey.southall@wyreforestdc.gov.uk Cheryl Ellerton, Extension 2116 cheryl.ellerton@wyreforestdc.gov.uk |
| APPENDICES: | Appendix 1 - UK Public Sector Internal Audit Standards http://www.wyreforest.gov.uk/council/docs/doc48591_20131202_audit_report.pdf |

1. PURPOSE OF REPORT

The purpose of this report is to inform members of the new United Kingdom Public Sector Internal Audit Standards (UK PSIAS) which came into effect on 1st April 2013. Compliance with these are a requirement of the Accounts and Audit Regulations (England) Regulations 2011.

2. RECOMMENDATION

The Audit Committee is asked to RECEIVE and ENDORSE:

2.1 The adoption of the UK Public Sector Internal Audit Standards as attached at Appendix 1.**3. BACKGROUND**

3.1 The CIPFA Code of Practice for Internal Audit in Local Authorities in the United Kingdom, (the CIPFA Code) had been recognised as best practice and adopted by Wyre Forest District Council with previous self assessments of the Internal Audit Team against the CIPFA code reported to the Audit Committee.

3.2 A collaboration by CIPFA with the Chartered Institute of Internal Auditors (IIA) led to the development of the new set of Internal Audit Standards (UKPSIAS) which provide for a consistent internal audit framework for the whole of the public sector. These new standards effectively replace the CIPFA Code of Practice for Internal Audit in Local Authorities in the United Kingdom 2006.

- 3.3 The new standards are intended to promote further improvement in the professionalism, quality and effectiveness of Internal Audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide Management with the assurance they need.
- 3.4 Overall, the contents within the Standards are a continuation of existing best practice and build on the CIPFA Code. As Internal Audit operates in compliance with the CIPFA Code, it is not anticipated that there will be significant changes in the day to day operational activities.
- 3.5 The UKPSIAS place a requirement on the Internal Audit Section to conform to the standards and to report any areas of non-conformance.
- 3.6 The UKPSIAS are based on the mandatory elements of the International Professional Practices Framework issued by the Global Institute of Internal Auditors which set out the following:-
- Definition of Internal Auditing;
 - Code of Ethics;
 - International Standards for the Professional Practice of Internal Auditing
- 3.7 The purpose of introducing the new standards is to:-
- ❖ Define the nature of internal auditing within the UK public sector;
 - ❖ Set basic principles for carrying out internal audit in the UK public sector;
 - ❖ Establish a framework for providing internal audit services, which add value leading to improved processes and operations; and
 - ❖ Establish the basis for the evaluation of internal audit performance.

The Key issues and changes arising from the UKPSIAS are as detailed below.

4. KEY ISSUES

- 4.1 The UKPSIAS standards applies to all internal audit service providers. All Internal Auditors are required to conform to the Code of Ethics of both the Institute of Internal Auditors and their own professions.
- 4.2 The standards are presented to provide clarity in comparison to the CIPFA Code of Practice for Internal Audit. Individual standards are numbered with subsections and the additional public sector requirements and interpretations are clearly identified.
- 4.2 There is a requirement that the purpose, authority and responsibility of the Internal Audit activity is formally defined in an Internal Audit Charter setting out:
- Internal Audit's position within the Council;
 - Its reporting lines;
 - Access to personnel, information and records;
 - The scope of internal audit activities including the nature of consulting services;
 - Define what the terms "board" and "chief audit executive" mean.

Whilst the term "Internal Audit Charter" is not well known within local government, this document is similar to the Terms of Reference for Internal Audit which have been formally approved by the Audit Committee.

The term "Chief Audit Executive" is a description used internationally, rather than the Head of Internal Audit or Chief Internal Auditor.

The UKPSIAS introduce references to “The Board” which for local government is taken as referring to the Audit Committee for the Council.

- 4.3 The UKPSIAS require the development of a Quality Assurance and Improvement Programme for Internal Audit. This will form the basis of the Annual Review of the Effectiveness of Internal Audit which must include both internal and external assessments. Internal self assessments will continue to be carried out in the same manner as those under the CIPFA Code of Practice for Internal Audit in Local Government. CIPFA have issued a Local Government Application Note (LGAN) which supersedes the CIPFA code as “proper practice” in relation to the requirements of the Accounts & Audit Regulations 2011. **The Principal Auditor will consider this guidance and review the service against it, to ensure that all standards are met. Compliance with the standards will then be reported back to the Audit Committee in due course.**
- 4.4 In addition, the new standards have introduced the requirement for an independent external assessment to be carried out at least once every five years. External assessments will need to be carried out by a qualified independent assessor or assessment team outside of the organisation.
- 4.5 Implementation of these standards is not expected to involve considerable work, however, some minor revisions to the Internal Audit Terms of Reference and the formulation of an Internal Audit Charter will be required along with a self assessment against the new standards and how best to deliver against the external assessment requirements.
- 4.6 Detailed below is an action plan of areas where it is felt changes are necessary.

| ACTION | RESPONSIBLE OFFICER | IMPLEMENTATION DATE |
|--|--------------------------------|----------------------------|
| The Terms of Reference for Internal Audit be revisited and an Audit Charter approved by the Audit Committee | Principal Auditor | March 2014 |
| A review of the working practices will be undertaken to identify any changes which may be required to ensure conformance with the UKPSIAS. | Principal Auditor | March 2014 |
| A paper on the options and implications for the introduction of the 5 year external independent review. | S151 Officer/Principal Auditor | June 2014 |

5. FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising from this report.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 The Accounts and Audit (England) Regulations 2011 section 6 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.”

- 6.2 Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should “*make arrangements for proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*”. CIPFA has defined “*proper administration*” in that it should include “*compliance with the statutory requirements for accounting and internal audit*”.¹

7. RISK MANAGEMENT

- 7.1 The Internal Audit service is one element of the Council’s assurance/internal control framework. This Key Assurance Service 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. The adoption of the UK Public Sector Internal Audit Standards ensures the Council continues to comply with best practice and mitigates risk accordingly.

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 From April 2013 the UK Public Sector Internal Audit Standards have been adopted by Internal Audit. Those areas where there is part or non compliance will be reviewed and the outcome reported to a future audit committee.

10. CONSULTEES

- 10.1 Corporate Management Team.
10.2 Cabinet Member for Resources & Transformation.

11. BACKGROUND PAPERS

- 11.1 United Kingdom Public Sector Internal Audit Standards ~ April 2013.
11.2 CIPFA Local Government Application Note 2013.
11.3 Accounts and Audit (England) Regulations 2011 (SI 817).

¹ Statement on the Role of the Chief Financial Officer in Local Government (CIPFA 2010)