

BUSINESS ASSURANCE SERVICES MANAGER ANNUAL REPORT 2014-15

1 Purpose

- 1.1 The Business Assurance Services Manager is required to provide a written annual report to those charged with governance, timed to support the Annual Governance Statement. This report should be presented to Members and considered separately from the Annual Governance Statement and formal accounts.
- 1.2 The report summarises the work of Business Assurance for the period 1 April 2014 to 31 March 2015, identifying the areas upon which the audit opinion is based.

2 Recommendations/for decision

- | |
|---|
| 2.1 The Committee is requested to note the contents of the Business Assurance Manager's Annual Report for the financial year 2014-15. |
|---|

3 Supporting information

- 3.1 The Audit Committee's terms of reference include dealing with internal and external audit issues. This report allows formal recognition of the Business Assurance Services Manager's report by a committee of the council.
- 3.2 The council is required to issue a statement of accounts each year. Included in the accounts is a statutory Annual Governance Statement to be signed by the Leader and Chief Executive. This statement gives assurance that matters relating to the council's operations are being properly managed and controlled.
- 3.3 The Annual Governance Statement draws upon the management and internal control framework of the council, especially the work of internal audit and the council's risk management framework. In particular the independent report of the council's Business Assurance Services Manager is a significant factor in determining the position to be reported.
- 3.4 The attached report includes the Business Assurance Services Manager's opinion on the adequacy and effectiveness of the council's risk management systems and internal control environment.
- 3.5 In forming this opinion the Business Assurance Manager can confirm that internal audit activity throughout 2014-15 has been independent from the rest of the organisation and has not been subject to interference in the level or scope of the audit work completed.

4 Options considered

- 4.1 None - The Business Assurance Services Manager's report is a statutory requirement.

5 Resource implications

- 5.1 None

Contact Officer
Background Documents

Evelyn Kaluza 01296 585549
None



Business Assurance Manager

Annual Report

APRIL 2014 – MARCH 2015

Aylesbury Vale District Council
Business Assurance Manager's Annual Report
April 2014 to March 2015

CONTENTS

	Page
1 Introduction	2
2 Business Assurance Manager's Opinion	2
3 Context	3
4 Overview of Assurance Activity 2014-2015	4-7
5 Audit Reporting Arrangements	7
6 Risk Management	8
7 Counter fraud work 14-15	8-9
8 Review of Effectiveness	9-11
9 Audit and Counter Fraud Resources	11
Appendix A Audit Opinion Definitions	13-14
Appendix B Gap Analysis against PSIA Standards	15

1. Introduction

Internal Audit is a statutory requirement for local authorities under the revised Accounts & Audit Regulations 2011, which states that a local authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control, in accordance with proper practices. The Council has recognised this statutory requirement in its financial regulations.

In accordance with the Public Sector Internal Audit Standards which came into force on 1 April 2013, the Head of Internal Audit (Business Assurance Services Manager) is required to provide an annual opinion, based on and limited to the work performed, on the effectiveness of the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.

This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance.

In addition the Annual Governance Statement sets out:

- How the individual responsibilities of the Section 151 Officer are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- The purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the assurance framework process; and
- The conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

2. Opinion

No system of control can provide absolute assurance against material misstatement or loss, nor can internal audit give that assurance. The work of Business Assurance is intended only to provide reasonable assurance on controls. In assessing the level of assurance to be given, I have taken into account:

- Those assurance reviews undertaken during 2014/15;
- The results of follow-up action taken in respect of assurance reviews, including those from previous years;
- Whether or not any fundamental or significant recommendations have not been accepted by management, and the consequent risks;
- The effects of any material changes in the Council's objectives, activities or systems;
- Matters arising from previous reports to the Audit Committee;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether or not there have been any resource constraints that may impinge on internal audit's ability to meet the full audit needs of the Council; and
- What proportion of the Council's assurance needs have been covered to date.
- Compliance with internal audit's Quality and Improvement Programme. (QAIP)

Annual Audit Opinion

Based on the results of the work undertaken during the year my opinion overall is that **satisfactory** assurance can be provided on the adequacy and effectiveness of the control environment.

There are no specific governance, risk management and internal control issues of which I have been made aware of during the year which cause any qualification of the above opinion.

Evelyn Kaluza
Business Assurance Services Manager
July 2015

3. Context

This report outlines the work undertaken by Business Assurance Services between 1 April 2014 and 31 March 2015.

Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Business Assurance plays a vital part in advising the organisation that these arrangements are in place and operating properly. On behalf of the Council, Business Assurance review, appraise and report on the efficiency, effectiveness and economy of these arrangements.

Business Assurance is required by professional standards to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards.

The primary role of Business Assurance Services is to provide assurance to the organisation (Directors, senior management and the audit committee) and ultimately the taxpayers that the authority maintains an effective control environment that enables it to manage its significant business risks. The service helps the Council achieve its objectives and provide assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of the Authority's control environment which feeds into the Annual Governance Statement.

4. Overview of Assurance Activity 2014-2015

The Assurance Strategy and Plan for 2014-15 was presented to the Audit committee in March 2014.

The focus of our assurance work is primarily on the corporate objectives, high risk areas and change programmes. The plan was reviewed by Corporate Board prior to approval by the Audit Committee.

During the year any new areas of risk or changes to the plan were reported to the Audit Committee as part of the progress report.

At the end of each assurance review the assurance officer issues a formal “assurance opinion” on the areas which was examined. There are four standard levels:

- Substantial assurance (highest)
- Reasonable
- Limited
- No Assurance (lowest)

A full definition of the four levels is attached at Appendix A.

A total of nine assurance reviews were completed in 14-15 of which four were given “substantial” assurance, three were given “reasonable” assurance and one was given “limited”. In addition there was one project review with an “amber/green” delivery confidence rating.

There are still a number of outstanding recommendations from 13/14 which relate to the financial systems controls which could not be addressed by the existing finance system APTOS. However it is expected that the replacement finance system will address all of these weaknesses when it is implemented for 15/16.

All agreed actions arising from audit reports are kept under review by Business Assurance Services and regular reports on overdue actions are provided to the Audit Committee.

A summary of the assurance reviews undertaken and the opinion given is shown below.

Review Areas	Assurance Rating	Recommendations		
		High	Medium	Low
Data Quality – Waste Data Flow	Reasonable	0	3	0
Corporate Credit Card	Limited	2	7	0
Payroll	Substantial	0	2	4
Housing Benefit and Council Tax Reduction	Reasonable	0	4	2
Council Tax and Business Rates	Reasonable	2	0	4
Car Parking Income	Substantial	0	0	1
Treasury Management	Substantial	0	2	1
Swan Pool Project	Amber/Green	2	5	0
Oyster Cards	Substantial	0	1	0

Advisory and Ongoing Assurance Work

The following areas of advisory work were completed from the plan

Data Transparency	To assess the councils ability to meet the requirements of the new Data Transparency. Report to IGG.
Finance Replacement System Project	Business Assurance Officer attended project board and meetings and input into design of controls.
Project Management Maturity	A review against a best practice model for assessing project management maturity resulted in a report to Corporate Board highlighting that the Council was currently at level 2 out of 5.
Information Governance Group Risk Register	Business Assurance facilitated a risk identification exercise for the Information Governance Group. A risk register is now in place for the group which will help prioritise areas for action in future. A summary of the risks was reported to the Audit Committee in January 2015

Major Projects Assurance

Business Assurance officers are attending the three levels of governance of major projects to provide advice on risk and control. The three levels are:

- 1) Project Board meetings. A Business Assurance Officer has attended regular project boards for the Swan leisure Centre & Pool improvements and for the University Campus Aylesbury Vale (UCAV).
- 2) Major Projects Project Managers Group. This group of project managers acts as a “first pass” review stage for project highlight reports that are subsequently reported to the Project Sponsors Group. It is also a forum for Project Managers to share experience and give advice for forthcoming project decisions. The Business Assurance Manager attends this group.
- 3) Major Projects Sponsors Group. Acts as the officer body that reviews project highlight reports and gives approval at gateway decision points in the lifecycle of the project. The Business Assurance Manager attends this group.

The following advisory areas of work were not on the plan but arose as areas of risk to review.

Banking Contract	The council's bank, Co-Op were withdrawing from supporting councils with effect from March 2015 and therefore the council was forced to seek an alternative bank. The Business Assurance Section attended procurement meetings with a view to ensuring that the new
-------------------------	---

	banking supplier is the most economically advantageous.
Confidential Shredding review	A review of the confidential shredding process which is carried out at the Pembroke Road depot was undertaken at the request of the Information Governance Group. Agreed action by IGG was that that the two responsible services should write a procedure for the process and relevant staff to be CRB checked as per best practice.

Follow up Work

The following audits from 12-13 were followed up:

Finance System and Budgetary Control	There are a number of recommendations which were outstanding which could be addressed but would have costs and resource requirements from the current finance software supplier and finance team. As the new finance system was being procured and will be implemented for 15/16 it was agreed with the Director with the responsibility for Finance that it was not economical to incur additional costs for the current system.
---	---

Other Sources of Assurance

The Business Assurance Service also looks at where other sources of assurance can be used to from the overall opinion through the three lines of defence model outlined in the strategy.

The annual service risk assurance process was completed in March 2015. This process seeks to identify from service managers which policy areas are higher risk to their service by the nature of their activities and what assurance were they giving in terms of responsibilities, training and monitoring.

Overall compared to 13/14 there are less areas where service managers consider there to be areas of weakness.

5. Audit Reporting Arrangements

The Audit Committee is provided with regular progress reports on the work performed by the Business Assurance Service.

Every quarter the report covers:

- 1) Any Assurance Plan Work completed since the previous report
- 2) Any advisory work completed
- 3) Progress with current work
- 4) Any other significant work
- 5) Outstanding Audit Recommendations over 6 months

This reporting and review ensures that audit recommendations are followed up and implemented appropriately.

There were no significant issues to report regarding the follow up any audit recommendations.

6. Risk Management

The Audit Committee has a role to monitor the effectiveness of risk management and internal control across the Council. As part of discharging this role the committee is asked to review the Strategic Risk Register.

During 14/15 a revised approach was developed for identifying and assessing Strategic Risks.

The Strategic Risk Register provides evidence of a risk aware and risk managed organisation. It reflects the risks that are on the current radar for corporate board and are not dissimilar to those faced across other local authorities. The difference is how the risks are assessed and how they are being managed. The risk register is reviewed at six monthly intervals.

7. Anti Fraud and Corruption Work 2014-15

The responsibilities of the Business Assurance Service includes developing and promoting the Anti-Fraud and Corruption Strategy, Whistleblowing Policy, conducting fraud risk assessments and raising awareness of emerging fraud issues.

National Fraud Initiative (NFI)

AVDC participates in this exercise which runs every two years and is co-ordinated nationally by the Audit Commission. Business Assurance Services is the key point of contact for the Council and facilitates and supports the Council's involvement.

Fraud Awareness

The new Whistle Blowing policy which replaces the Confidential Reporting Policy has been published. The new policy now includes reference to the key legislation contained in the Public Interest Disclosure Act.

Business Assurance have been increasing the awareness of this through a series of face to face training and information through the intranet for officers.

Business Assurance have attended Managers Group twice since March to update them on the new policy and the Bribery Act 2010 and how this relates to the receipt of gifts and hospitality.

8. Review of Effectiveness

The Accounts and Audit Regulations issued in 2006 (updated subsequently) required a "Review of the Effectiveness of Internal Audit" to be conducted annually.

This section of the report sets out information on the effectiveness of the service and focuses on compliance with the PSIAS (Public Sector Internal Auditing Standards) and customer feedback.

Compliance with Public Sector Internal Auditing Standards (PSIAS)

A best practice audit service is provided which fully complies with the PSIA Standards. A self-assessment against the requirements of the PSIAS was conducted in 2013 and the gap analysis and action plan has been updated to reflect the current position. See Appendix B.

Any external assessment is also now a requirement of the standards and this will need to take place within the next three years confirm that the standards have been met.

I do not consider that the gaps in the PSIA standards impact on the overall effectiveness of the work of Business Assurance.

Personal effectiveness and development

In accordance with best practice there is a rigorous internal review of all work undertaken by Assurance Officers and the results feed into the staff appraisal process.

Maintaining professional standards and keeping abreast of best professional practice is a very important part of the service. The Business Assurance Manager and two Assurance Officers are members of the Chartered Institute of Internal Auditors. One Assurance Officer has the IIA advanced diploma in Internal Auditing and Management and one is a Practitioner of the CIIA. In addition the assurance officers

have specialist qualifications in Information Systems and Contract Management & Procurement.

During the year staff attended external training/seminars as well as self development through the work of the team and the aims to be as efficient and effective as possible.

The following training/developments were attended during 14-15.

- CIPFA Better Governance Forum – Procurement and Contract Audit Update
 - CIPFA Better Governance Forum – Developing an effective counter fraud strategy
 - Internal short course – Dealing with Difficult Conversations
 - Association of Project Managers Conference
 - London Audit Group IT sub-group
- The remaining development time was spread across the year for reading and research for new areas of reviews, IT training on the use of Visio.

The Business Assurance Manager regularly attends the London Audit Group where speakers on topical issues give presentations and there is opportunity to network. There are also close professional links with neighbouring councils. The Council also has a subscription to the CIPFA Better Governance Forum which provides weekly governance updates and bulletins aimed at Audit Committees.

The Business Assurance Manager’s Annual Talent Review is conducted by the Director with the responsibility for Finance and feedback is also sought from the Chair of the Audit Committee.

Service Performance

Aspect of Service	Performance measures	Target	Actual Performance	
Cost and Quality Input	Service Costs	Within Budget	Within Budget	Met
Productivity	<ul style="list-style-type: none"> • Productivity Ratio 	75%	78.4%	Exceeded
Quality of Output	Client Satisfaction - Staff Performance	90% Good or above	39/40 (97.5%)	Exceeded
	- Conduct of Reviews	95% Yes	98.2%	Exceeded
	- Reporting	95% Yes	100%	Exceeded
Compliance with professional standards	Meet PSIA standards	100%	98%	Below
Staff skills/Development	Annual training and development	5 days per person (total 10 days)	10.6 days	Exceeded

Productivity Ratio

This measure aims to minimise “non-productive” time and maximise “productive/chargeable” time. Non-productive time is that time that does not directly contribute to services to the customer. Eg annual leave, team meetings, personal development.

Productive Time	Days	%
BAS Plan	387.4	
Fraud strategy	8.3	
Total	395.7	78.4%
Non-productive time		
Corporate Groups	4.5	
Personal Development	10.6	
Team Meetings/1:1	12.4	
Leave BH sickness	71.0	
Elections	10.6	
Total	109.1	21.6%
Total Days available	504.8	

9. Audit and Counter Fraud Resources

During 2014/15 there were two full time assurance officers (Internal Auditors) to focus on delivering the Business Assurance Plan along with the Business Assurance Manager. On 31 March 2015 one of the assurance officers left to take up a new senior audit role. The resource implications for the 15/16 plan will be reported to the committee in July 2015.

One officer was also asked to be part of the core group that managed the May Parliamentary Elections which took approximately 10 days in total. Whilst this had an minor impact on the overall productivity ration it did not impact on the completion of the Assurance Plan.

The Fraud Investigation Officers who were part of the Revenue and Benefits Service were transferred to the DWP as part of the Single Fraud Investigation Service on 1 February. The full impact of this transfer will be reported to the committee in September 2015.

Appendix 1 – Assurance Definitions

<p>Substantial Assurance</p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. As a guide there are a few low risk / priority actions arising from the review.</p>
<p>Reasonable Assurance</p>	<p>Our critical review or assessment on the activity gives us a reasonable level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls are in place and operating sufficiently so that the risk to the activity not achieving its objectives is medium to low. As a guide there are mostly low risks and a few medium risk/priority actions arising from the review.</p>
<p>Limited Assurance</p>	<p>Our critical review or assessment on the activity identified some concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the risks are not always being operated or are inadequate. Therefore, the risk of the activity not achieving its objectives is medium to high. As a guide there are mostly medium and a few high risk / priority actions arising from the review.</p>
<p>No Assurance</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the risks are not being operated or are not present. Therefore the risk of the activity not achieving its objectives is high. As a guide there are a large number of medium and high risks / priority actions arising from the review.</p>

Project Assurance - DELIVERY CONFIDENCE RATING

Each project health check will result in an assessment of delivery confidence.

Delivery Confidence is the confidence in a project's ability to deliver its aims and objectives:

- Within the timescales
- Within the budget
- To the quality requirements including delivery of benefits, both financial and non-financial.

The assessment of Delivery Confidence reflects:

- Specific issues that threaten delivery to time, cost and quality, and jeopardise the delivery of benefits
- The Business Assurance Officer's professional judgement of the likelihood of the project succeeding even though there may be no definitively clear evidence either way
- The resilience of the project to overcome identified shortcomings or threats.

RAG rating	Criteria description
Green	Successful delivery of the project to time, cost and quality appears highly likely and there are no major outstanding issues that at this stage appear to threaten delivery significantly.
Amber/Green	Successful delivery appears probable; however, constant attention will be needed to ensure risks do not materialise into major issues threatening delivery.
Amber	Successful delivery appears feasible but significant issues already exist, requiring management attention. These appear resolvable at this stage and if addressed promptly, should not present a cost/schedule overrun.
Amber/Red	Successful delivery of the project is in doubt, with major risks or issues apparent in a number of key areas. Urgent action is needed to ensure these are addressed, and whether resolution is feasible.
Red	Successful delivery of the project appears to be unachievable. There are major issues on project definition, schedule, budget, quality and/or benefits delivery, which at this stage do not appear to be manageable or resolvable. The project may need re-scoping and/or its overall viability reassessed.

Gap Analysis against PSIA Standards Updated July 2015

Ref	PSIA Standard Area of Non Conformance/weakness	Commentary	Actions	Update July 2015
	<p>Code of Ethics Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by Performing services in accordance with the Public Sector Internal Audit Standards.</p>	The audit manual needs to be updated to reflect the PSIA requirements but as there is no significant change to the previous CIPFA code of practice this is not a significant issue	Update the Audit Manual (set of audit procedures) to reference the Public Sector Internal Audit Standards.	<p>Partially updated some key areas.eg Audit Charter</p> <p>Complete update of manual by 31 December 2015</p>
	<p>Code of Ethics Do the internal auditors confirm on an annual basis that they comply with the IIA code of Ethics and the AVDC code of conduct</p>	There has not been a requirement to complete an annual declaration up to now	Arrange for a form to be created and signed by the Internal Auditors in the team Business Assurance Manager	<p>Still outstanding</p> <p>Complete form as part of manual update</p>