

# Audit and Corporate Governance Committee Report



Listening Learning Leading

Report of Audit Manager

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To: Audit and Corporate Governance Committee

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## AGENDA ITEM NO 10

## Internal Audit Annual Report 2007/2008

### Purpose of Report

1. The purpose of this report is to report on the work of Internal Audit in the year ended 31<sup>st</sup> March 2008, and to advise the Committee of the Audit Manager's opinion on the overall adequacy and effectiveness of the internal control environment.
2. The Committee is asked to note the report.

### Background

3. Standard 10 of the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (CIPFA Code) states that the Head of Internal Audit (Audit Manager) must produce an annual report that:
  - includes his or her opinion on the overall adequacy and effectiveness of the organisation's control environment;
  - discloses any qualifications to that opinion, together with the reason(s) for the qualification;
  - presents a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;

- draws attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement of Internal Control (now Annual Governance Statement);
  - compares the work actually undertaken to the work that was planned and summarises the performance of the internal audit function against its performance measures and targets; and
  - comments on compliance with the CIPFA standards and communicates the result of the internal audit quality assurance programme.
4. The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
- establishing and monitoring the achievement of the organisation's objectives;
  - ensuring compliance with established policies, procedures, laws and regulations;
  - ensuring risk management is embedded in the activity of the organisation, that leadership is given to the risk management process, and staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
  - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
  - the financial management of the organisation and the reporting of financial management; and
  - the performance management of the organisation and the reporting of performance management.

## **Overall Opinion**

5. The Audit Manager is satisfied that sufficient internal audit work has been undertaken to allow a reasonable conclusion to be drawn as to the adequacy and effectiveness of South Oxfordshire District Council's risk management, control and governance processes. The Audit Manager's opinion is based on the risk-based audits carried out during the year and other unplanned work on control systems. No reliance has been placed on the work of other assurance bodies.
6. It is the Audit Manager's unqualified opinion that satisfactory assurance can be placed on the Council's risk management, control and governance processes. There is basically a sound system of internal control but there are some weaknesses which may put some system objectives at risk. Areas of concern in the control environment mainly centre on key financial systems, where Internal Audit identified significant weaknesses which require remedial action. Notwithstanding the Audit Manager's overall opinion, Internal Audit identified a number of opportunities for improving controls and procedures across the Council which officers have generally responded to positively.

7. A summary of all Internal Audit opinions is attached as **Appendix 1**.

## **Summary of Audit Work**

8. For 2007/2008, Internal Audit completed 608 audit work days. 299.25 days for South Oxfordshire District Council and 308.75 days for the Vale of White Horse District Council. This includes planned audit work, consultancy work and contingency work (i.e. investigations).
9. A total of 55 planned audits were completed within 2007/2008, and a further five reports are pending finalisation. From those, 24 relate to South Oxfordshire District Council and four out of the five pending relate to the Council. From the 24 completed audits, two (8%) achieved a full assurance rating. In most cases (15 audits / 63%) a satisfactory assurance rating was achieved. Limited assurances were appropriate for seven (29%) audits and no reviews resulted in nil assurance being given. In total 167 recommendations to improve controls and procedures within the Council were made. 17 (10%) were classified as high, 81 (49%) as medium and 69 (41%) as low. Only 11 (7%) recommendations were not agreed by management.
10. Four investigations were completed during 2007/2008 for the Council, and this work utilised 35 days. In addition, Internal Audit was asked to complete a review of the Council's tender process and the Audit Manager undertook a risk management review. This work amounted to 15 days.
11. Six formal follow-up reviews should have been undertaken before the year end 31<sup>st</sup> March 2008 in accordance with Internal Audit's performance target. Due to prioritising the completion of key financial audits, none were completed within the target timeframe. Follow up on the remainder of 2007/2008 audit work is included in the 2008/2009 annual audit plan.

## **Issues Relevant to the Annual Governance Statement**

12. Specific audit reviews on corporate governance and the fraud and corruption policy and response plan were not included within the 2007/2008 annual audit plan. However, the Audit Manager considers that the fraud and corruption policy and response plan needs to be revised and updated. Specific reviews in both areas have been included within the 2008/2009 annual internal audit plan.
13. The Audit Manager undertook a risk management review of the Council's processes in 2007/2008, and a limited assurance rating was given. Whilst it is acknowledged that the Council has implemented risk management processes and risks are being identified and reviewed annually, it is the Audit Manager's opinion that improvements need to be made in order to fully embed an adequate and robust risk management approach within the Council.
14. During 2007/2008 a number of system performance issues were identified with the conversion to the Agresso 5.5 financial management system. An action plan was implemented during the year which was closely monitored by

officers, but the issues resulted in control weaknesses being identified in the majority of the key financial system audits. The majority of the recommendations made were accepted by management, and these recommendations will be subject to follow up in 2008/2009.

## Internal Audit's Performance

15. The performance of Internal Audit is measured against a number of indicators. The out-turn for 2007/2008 is as follows:

	Target	Year Ending 31/03/08
<b>Chargeable</b>	63%	52%
<b>Non-Chargeable</b>	20%	25.5%
<b>Lost</b>	17%	22.5%

Performance Targets	Year Ending 31/03/08
<b>PT1</b> To issue 90% of audit notifications at least 10 working days before start of audit fieldwork	90%
<b>PT2</b> To issue 90% of draft audit reports within 10 working days of completion of audit fieldwork.	74%
<b>PT3</b> To issue 90% of final audit reports within 10 working days of receipt of the auditees final replies to draft report and recommendations.	90%
<b>PT4</b> To issue Post Audit Questionnaire within 1 month of issue of final report.	100%
<b>PT5</b> To follow up 80% of final reports within 6 months of completion of audit.	0%
<b>PT6</b> To complete the audit fieldwork and issue draft reports on 87% of all fundamental system audits within the audit plan.	87.5%
<b>PT7</b> To complete the audit fieldwork and issue draft reports on 75% of all non-fundamental system audits within the audit plan.	70%

16. Less than half of the performance targets set for 2007/2008 were achieved. However, it is the Audit Manager's opinion that the section performed well given the lack of an Audit Manager for 17 weeks, two Auditor vacancies amounting to 38 weeks and significant staff absence in quarter 3. Time was also taken ensuring the successful harmonisation of the two teams and working practices.
17. During the year Internal Audit harmonised its working practices and consulted with senior managers on the performance and value of the internal audit service. Their comments were considered in the adoption of the new working approach and areas identified by officers for review were included in the 2008/2009 internal audit plan where possible. Frequent meetings were also established in the year with the Audit Commission, to ensure that moving forward greater reliance can be placed on internal audit's work.

18. In December 2007, the Internal Audit Charter was approved by the Audit and Corporate Governance Committee setting out the definition and purpose of the internal audit function, where the internal audit function derives its authority from, its rights of access and the responsibilities of the function.

### **Compliance with CIPFA Code**

19. Based on the improvements to working practices that have been made following the harmonisation of the section and the quality assurance programme introduced from August 2007, it is the Audit Manager's opinion that internal audit work has complied with the CIPFA standards. However, it is acknowledged that there are areas for improvement, and a self-assessment of the section against CIPFA requirements will be carried out by the end of July 2008. This will be verified by the Section 151 Officers at both Councils, and an improvement action plan will be documented.
19. As part of the quality assurance programme and to assist in monitoring and improving the quality and value of service provided, auditees are requested to complete an Audit Feedback Questionnaire on Internal Audit's performance. Response rates do need to improve, but on the responses received in 2007/2008 the general perceptions of the service provided is good. A summary of all the responses received and general comments is attached as **Appendix 2**.
20. All feedback received by the Audit Manager is discussed with the Senior Auditor and relevant Auditor. Where appropriate, the Audit Manager meets the officer to discuss their comments in more details.

ADRIANNA PENN  
AUDIT MANAGER

System Name	Status	Audit Allocation	Total Days Used	Exception Issues	Audit Opinion	No. of Recs	High	No. Agreed	Medium	No. Agreed	Low	No. Agreed	Total Not Agreed
<b>JOINT</b>													
Capital Accounting SODC VWHDC	Completed	20	18.5		Satisfactory Satisfactory	6 1	0 0	N/A N/A	3 0	3 N/A	3 1	3 1	0 0
Concessionary Fares (VWHDC)	Completed	12	9	SODC request for postponement agreed by SODC ACGC Chairman.	Satisfactory	6	0	N/A	2	2	4	4	0
Council Tax SODC VWHDC	Completed	20	20		Satisfactory Satisfactory	8 10	0 0	N/A N/A	6 6	5 5	2 4	2 4	1 1
Creditors Payments SODC VWHDC	Completed	20	22		Satisfactory Limited	11 18	0 3	N/A 2	6 7	6 7	5 8	5 8	0 1
Data Protection SODC VWHDC	Completed	12	12		Limited Limited	6 6	0 3	N/A 3	5 3	5 3	1 0	1 N/A	0 0
Elections SODC VWHDC	Completed	20	24.5	New IA staff member.	Limited Satisfactory	14 6	3 0	3 N/A	6 4	6 4	5 2	5 2	0 0
Finance PIR SODC VWHDC	Draft out Completed	12	8.5		Pending Full	- 0	- N/A	- N/A	- N/A	- N/A	- N/A	- N/A	- N/A
Housing & Council Tax Benefits SODC VWHDC	Completed	20	19		Limited Satisfactory	6 6	1 0	1 N/A	4 5	4 5	1 1	1 1	0 0
ICT SODC VWHDC	Completed	18	10		Satisfactory Satisfactory	6 11	0 0	N/A N/A	0 4	N/A 3	6 7	6 6	0 2
NNDR SODC VWHDC	Completed	20	19.5		Limited Limited	9 7	0 0	N/A N/A	6 6	2 2	3 1	2 1	5 4
Payroll SODC VWHDC	Completed	20	19		Satisfactory Limited	10 10	0 3	0 3	5 5	4 4	5 2	4 2	2 1
Proactive Anti-Fraud SODC	Draft out	20	13	Strategic Director requested extension to deadline.	Pending	-	-	-	-	-	-	-	-
VWHDC	Not Finalised			Strategic Director with responsibility left prior to commencement of audit. No lead officer, Deputy Director (Org Change and Dev requested more detailed audit work be undertaken before report is finalised.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Revenues – PIR SODC VWHDC	Draft out	12	8.5		Pending Pending	- -	- -	- -	- -	- -	- -	- -	- -	
Sundry Debtors SODC VWHDC	Completed	20	20		Limited Limited	8 5	4 2	4 2	1 0	1 N/A	3 3	3 3	0 0	
Treasury Management SODC VWHDC	Completed	18	20		Satisfactory Full	7 0	0 0	N/A N/A	1 0	1 N/A	6 0	5 N/A	1 N/A	
<b>JOINT TOTALS</b> SODC	-	<b>264</b>	<b>243.5</b>	<b>24</b>	Full Satisfactory Limited Nil	0 6 5 0	8 8 8	8 8 8	43 43 43	37 37 37	40 40 40	37 37 37	9 9 9	
VWHDC					Full Satisfactory Limited Nil	2 6 5 0	86 86 86	11 11 11	10 10 10	42 42 42	25 25 25	33 33 33	32 32 32	9 9 9
<b>SODC</b>														
Bank Contract and Arrangements	Completed	10	4	Only half of the scope reviewed due to officer absence.	Satisfactory	1	1	1	0	N/A	0	N/A	0	
Bank Reconciliation	Completed	10	13.5	New IA staff member	Limited	10	3	3	2	2	5	5	0	
Budgetary Control	Completed	10	9		Satisfactory	10	0	N/A	6	6	4	4	0	
Building Control (inclu. Dangerous Structures)	Completed	10	9		Satisfactory	3	0	N/A	2	2	1	1	0	
Business Continuity Planning	Completed	10	10.5		Satisfactory	9	0	N/A	6	6	3	3	0	
Cleansing Service	Completed	10	6.5		Satisfactory	1	0	N/A	1	1	0	N/A	0	
Didcot Wave & Leisure Centre Contract	Completed	10	12.5	Discussion on recommendations	Satisfactory	5	0	N/A	2	2	3	3	0	
Dog Control	Completed	10	4		Limited	9	2	2	6	6	1	1	0	
Housing Development	Draft out	10	14	Time spent chasing requested evidence	Pending	-	-	-	-	-	-	-	-	
Land Charges	Completed	10	9.5		Satisfactory	8	2	2	4	4	2	2	0	
Officers Travelling & Subsistence Expenses	Completed	10	8.5		Satisfactory	9	1	1	5	5	3	3	0	
Planning Control	Completed	10	8.5		Good (Full)	3	0	0	0	0	3	3	0	
Waste Management	Completed	10	6.5		Full	1	0	N/A	0	N/A	1	1	0	
Housing Allocations	Completed	10	11.5		Satisfactory	7	0	N/A	4	3	3	2	2	
<b>SODC TOTALS</b>	-	<b>140</b>	<b>127.5</b>	<b>13</b>	Full Satisfactory Limited Nil	2 9 2 0	76 76 76	9 9 9	9 9 9	38 38 38	37 37 37	29 29 29	28 28 28	2 2 2

VWHDC													
Abingdon LSP	Completed	10	13.5	New IA staff member	Satisfactory	11	0	N/A	9	9	2	2	0
Affordable Housing	Completed	7	9.5		Satisfactory	5	0	N/A	3	2	2	1	2
Benefit Counter Fraud	Completed	7	7		Satisfactory	4	0	0	2	2	2	2	0
Cash	Completed	8	18	Scope of audit too extensive	Satisfactory	23	0	0	22	20	1	1	2
Discretionary Grants	Completed	7	6		Full	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Environmental Protection	Completed	7	7		Good (Full)	4	0	N/A	1	1	3	3	0
Excess Charges	Completed	5	5		Good (Full)	2	1	1	1	1	0	N/A	0
Health & Safety (Council)	Completed	8	8		Satisfactory	17	0	N/A	15	15	2	2	0
Homelessness & Temporary Accommodation	Completed	6	9.5	Investigation of specific issues	Satisfactory	1	1	1	0	N/A	0	N/A	0
Oxfordshire Waste Partnership	Completed	10	12	Time spent discussing scope with OWP Co-Ordinator	Satisfactory	3	0	N/A	1	1	2	2	0
Insurance	Completed	7	7		Satisfactory	3	1	1	2	2	0	N/A	0
ISO Audits	Completed	8	5	Corporate Role	-	-	-	-	-	-	-	-	-
Land & Property	Completed	8	9.5	Discussion on recommendations	Limited	5	1	1	4	4	0	0	0
Main Accounting	Completed	10	11.5	Difficulties assessing Agresso information	Satisfactory	5	0	N/A	0	N/A	5	5	0
Recycling	Completed	8	8		Satisfactory	12	0	N/A	10	10	2	2	0
Refuse & Street Cleansing	Completed	8	8		Satisfactory	8	0	N/A	5	5	3	3	0
Rent Accounting	Completed	6	14	Investigation of specific issues	Unsatisfactory (Limited)	14	7	7	7	7	0	N/A	0
SOLL Leisure	Completed	10	10		Satisfactory	6	0	N/A	4	4	2	2	0
White Horse LC Contract	Completed	6	6		Limited	4	0	N/A	3	2	1	0	2
VWHDC TOTALS	-	146	174.5	18	Full	3							
					Satisfactory	12							
					Limited	3							
					Nil	0							
PLANNED RSSP TOTALS	-	550	545.5	55	Full	7							
					Satisfactory	33							
					Limited	15							
					Nil	0							
PLANNED SODC TOTALS		272	249.25	24	Full	2							
					Satisfactory	15							
					Limited	7							
					Nil	0							
PLANNED VWHDC TOTALS		278	296.25	31	Full	5							
					Satisfactory	18							
					Limited	8							
					Nil	0							



## UNPLANNED WORK 2007/2008

### CONSULTANCY

System Name	Status	Audit Allocation	Total Days Used	Requested By
<b>JOINT</b>				
Anti Fraud and Corruption	Outstanding Q208/09	20 Days	-	Audit Manager
Corporate Governance	Outstanding Q308/09	20 Days	-	Audit Manager
Risk Management SODC	<b>Completed</b> <b>Limited 7H 5M 2L</b> <b>In Progress</b>	10 Days	4 Days	Audit Manager
VWHDC		10 Days		
<b>SODC</b>				
Tender Review	<b>Completed</b> <b>Limited 2H 9M 1L</b>	10 Days	11 days	Head of Legal and Democratic Services / Head of Leisure
<b>VWHDC</b>				
None	-	-	-	-
<b>CONSULTANCY SODC TOTALS</b>			<b>15</b>	
<b>CONSULTANCY VWHDC TOTALS</b>			<b>0</b>	

### CONTINGENCY

System Name	Status	Audit Allocation	Total Days Used	Requested By
<b>Joint</b>				
None	-	-	-	-
<b>SODC</b>				
Investigation 1	<b>Completed</b>	N/A	15.5 Days	Chief Executive
Investigation 2	<b>Completed</b>	N/A	17.5 Days	Head of Planning
Investigation 3	<b>Completed</b>	N/A	0.5 Day	Head of Environmental Services
Investigation 4	<b>Completed</b>	N/A	1.5 Days	Head of Environmental Services
<b>VWHDC</b>				
Flood Review	<b>Completed</b>	N/A	12.5 Days	Strategic Director
<b>CONTINGENCY SODC TOTALS</b>			<b>35</b>	
<b>CONTINGENCY VWHDC TOTALS</b>			<b>12.5</b>	

**SODC TOTAL AUDIT WORK: 299.25 days**  
**VWHDC TOTAL AUDIT WORK: 308.75 days**

## **INTERNAL AUDIT FEEDBACK**

## **APPENDIX 2**

14 Audit Feedback questionnaires were returned for work completed in 2007/2008. Responses and general comments were received from:

### **SODC**

Building Control

### **VWHDC**

Accountancy, Corporate Management Team, Elections, Environmental Protection, Health and Safety, Housing, Leisure, LSP, Waste Management and Revenues and Benefits.

### **AUDIT PLANNING AND SCOPE OF WORK**

	Very Good	Good	Satisfactory	Poor	Very Poor
1. Consultation on the scope and coverage of the audit	2	7	4	1	0
2. Minimal disruption to daily activities	4	5	5	0	0

### **COMMUNICATION**

	Very Good	Good	Satisfactory	Poor	Very Poor
3. Consultation and communication during the audit	5	3	4	2	0
4. Communication of audit findings and recommendations	4	5	5	0	0

### **QUALITY OF AUDIT REPORT**

	Very Good	Good	Satisfactory	Poor	Very Poor
5. Clarity and conciseness of the audit report	2	6	6	0	0
6. Fulfilment of the audit scope and objectives	3	5	6	0	0
7. Accuracy, validity and significance of the audit findings	2	5	5	2	0
8. Audit recommendations – constructive, practical and logical	2	8	4	0	0

### **PROFESSIONAL PROFICIENCY**

	Very Good	Good	Satisfactory	Poor	Very Poor
9. Professionalism of the auditor(s)	5	4	5	0	0
10. Advice given by the auditor(s)	4	4	6	0	0

### **GENERAL**

	Very Good	Good	Satisfactory	Poor	Very Poor
11. Usefulness of audit in identifying risks and improving controls	2	4	6	1	1
12. Overall evaluation of the quality of the audit service provided	2	7	4	1	0

### **TOTALS**

	Very Good	Good	Satisfactory	Poor	Very Poor
	37	63	60	7	1

### **OTHER COMMENTS RECEIVED**

<ul style="list-style-type: none"><li>• Thank you for a good piece of work delivered on time.</li><li>• This was a difficult audit which covered a very wide remit. It would have been better and more effective to cover a limited part of the contract. The assistance in gaining a monitoring post was helpful.</li><li>• It was felt that the need operationally was insufficient to warrant the use of audit resources and the benefits are minimal. Whilst appreciating that the system used to prioritise risk identifies this contract as high it perhaps highlights a need to review the risk criteria.</li><li>• This was a split audit. The initial process was demotivating, but the Audit Manager's professionalism and direct approach has pulled this situation round.</li><li>• Initial meetings with the internal auditor were somewhat muddled and I was concerned that the right information was being requested to assist with relevant points. I provided a considerable amount of information but received no feedback at all on its usefulness or otherwise until reading the resulting report.</li></ul>
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