

# Audit and Governance Committee



Report of Assurance Manager

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To: Audit and Governance Committee

DATE: 3 July 2017

## Internal audit annual report 2016/2017

### Recommendation

That members note the content of the report.

### Purpose of Report

1. The purpose of this report is to report on the work of internal audit in the year ended 31 March 2017, and to advise the committee of the assurance manager's opinion on the overall adequacy and effectiveness of the internal control environments at South Oxfordshire and the Vale of White Horse District Councils.
2. The contact officer for this report is Adrianna Partridge, Assurance Manager for South Oxfordshire District Council and Vale of White Horse District Council, telephone 01235 422485.

### Strategic Objectives

3. Running an efficient council.

## Background

4. 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 (assurance 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 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.
  
5. 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

6. The assurance 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 SODC's and VWHDC's risk management, control and governance processes. The assurance manager's opinion is based on the risk-based audits carried out during the year at each council and other unplanned work on control systems. No reliance has been placed on the work of other assurance bodies.

7. It is the assurance manager's unqualified opinion that based on the areas reviewed during the year, satisfactory assurance can be placed on both councils' general risk management, control and governance processes. However, it should be noted that there has been a weakening of the control environment across both councils since 2015/2016, particularly within key financial systems (assurance ratings reduced in 5 key financial systems). Overall, there is basically a sound system of internal control at both councils, but there are some weaknesses which may put some system objectives at risk.
8. Notwithstanding the assurance manager's overall opinion, internal audit identified a number of opportunities for improving controls and procedures across the councils which officers have generally responded to positively. Areas of weakness in the control environment have been identified in the following areas – payroll, creditor payments, pro-active anti-fraud, treasury management, risk management, building control, performance management, facilities management and, for SODC only, environmental protection and Cornerstone. Where internal audit identified weaknesses which require remedial action, recommendations have been made and discussed with officers. One area was given full assurance – SODC community infrastructure levy.
9. A summary of all internal audit opinions across both councils is attached as **Appendix 1**.

## **Summary of Audit Work**

10. For 2016/2017, internal audit completed 530 audit work days. 246 days for South Oxfordshire District Council and 284 days for the Vale of White Horse District Council. This includes planned audit work, consultancy work and contingency work (i.e. investigations).
11. A total of 22 joint planned internal audit reviews have been undertaken and one which was SODC only. From the 45 completed audits, one (2%) achieved a full assurance rating. 12 audits (27%) achieved a substantial rating. For 13 audits (29%) a satisfactory assurance rating was achieved. Limited assurances were appropriate for 18 (40%) audits. One review did not provide an assurance rating (2%) as CIL was not yet live at VWHDC and no reviews resulted in nil assurance being given. In total 210 recommendations to improve controls and procedures within the councils were made. 62 (30%) were classified as high, 80 (38%) as medium and 68 (32%) as low. Of the completed audits 10 recommendations were not agreed by management.
12. Five joint investigations/ad-hoc reviews were undertaken (two completed) during 2016/2017, and these utilised 39.5 days. Five VWHDC investigations were undertaken (three completed) and utilised 47.5 days. No system development work was requested.
13. A total of 23 follow-up reviews were undertaken during 2016/2017, utilising 15.75 days. From those 23, five related to SODC and five related to VWHDC and nine were joint. Time has been allocated within the 2017/2018 audit plan for further follow-up work.

## Issues Relevant to the Annual Governance Statement

- 14. Specific audit reviews on corporate governance and the council’s anti-fraud and corruption policies were not included within the 2016/2017 annual audit plan. However, a risk management audit was undertaken in 2016/2017 which made 14 recommendations across both councils, including 8 high risk, and gave a limited assurance opinion. A gifts and hospitality audit was also undertaken in 2016/2017, which made 1 medium risk recommendation across both councils and gave a substantial assurance opinion. Internal audit has undertaken pro-active anti-fraud testing within 2016/2017 which made three high risk and one low risk recommendation and gave a limited assurance opinion at both councils. Pro-active anti-fraud testing in 2015/2016 provided a full assurance opinion, so it should be noted that this is a significant weakening of the control environment in this area.
- 15. No suspicions of fraud and corruption were reported to the assurance manager during 2016/2017.
- 16. The council's gifts and hospitality policy states that 'The Local Government Act and other legislation makes it clear that council employees should not accept any fees or reward during the course of their employment other than their standard remuneration from their employer'. The policy goes on to highlight where exceptions to this rule are permissible and outlines the process staff should follow when offers of gifts or hospitality are made. The assurance manager has reviewed the six entries declared within the register for 2016/17, and there were no concerns.

## Internal Audit’s Performance

- 17. The internal audit team was at full complement for 2016/2017 of an assurance manager (0.8FTE) and three auditors shared across both sites. There was auditor sickness for one month, but this was covered by an interim contractor.
- 18. The performance of internal audit is measured against a number of indicators. The out-turn for 2016/2017 is as follows:

	Year Ending 31/03/16	Target 16/17	Year Ending 31/03/17
<b>Chargeable</b> (identifiable client and/or specific IA deliverable)	73.5%	74%	76%
<b>Non-Chargeable</b> (corporate, not IA deliverable)	6.5%	8%	5%
<b>Lost</b> (i.e. leave, study, sickness)	20%	18%	19%
Planned Lost	12%	16%	14%
Unplanned Lost	7.5%	2%	5%

Performance Targets	Year Ending 31/03/17
<b>PT1</b> To issue 90% of audit notifications at least 1 month before start of audit fieldwork	100%

<b>PT2</b> To issue 90% of draft audit reports within 5 working days of completion of the exit meeting.	100%
<b>PT3</b> To issue 90% of final audit reports within 5 working days of receipt of the auditees final responses to draft report and recommendations.	100%
<b>PT4</b> To issue 90% of follow-up notifications at least 1 month before start of follow-up work.	95%
<b>PT5</b> To follow up 90% of final reports within 6 months of completion of audit.	95%
<b>PT6</b> To complete the audit fieldwork and issue draft reports on 100% of key financial system audits within the audit plan.	100%
<b>PT7</b> To complete the audit fieldwork and issue draft reports on 80% of all non key financial system audits within the audit plan.	83%

19. In 2016/2017 the team achieved nine out of 10 of the annual performance targets set. The team's 'lost' target was affected by a period of staff sickness which is a non-controllable target. Notwithstanding, the assurance manager considers it to be an excellent team performance, which was achieved during a period of significant change to the audit work environment as a result of the 5 councils partnership.

### **Compliance with CIPFA Code**

20. As part of the quality assurance programme and to assist in monitoring and improving the quality and value of service provided, auditees are asked to complete an audit feedback questionnaire on internal audit's performance. Responses received in 2016/2017 are summarised in appendix 2.
21. All feedback received by the assurance manager is discussed with the relevant auditor. Where appropriate, the assurance manager meets the officer to discuss their comments in more detail and implement any necessary process improvements.

### **Financial Implications**

22. There are no financial implications attached to this report.

### **Legal Implications**

23. None

### **Risk Implications**

24. Identification of risk is an integral part of all audits.

ADRIANNA PARTRIDGE  
ASSURANCE MANAGER

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