

# Joint Audit and Governance Committee



Report of Audit Manager

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To: Audit and Governance Committee

DATE: 6 July 2015

## Internal audit annual report 2014/2015

### Recommendation(s)

(a) 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 2015, and to advise the committee of the audit 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, Audit Manager for South Oxfordshire District Council and Vale of White Horse District Council, telephone 01235 540389.

### Strategic Objectives

3. Managing our business effectively.

## 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 (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 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 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 SODC's and VWHDC's risk management, control and governance processes. The audit 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. South Oxfordshire District Council  
It is the audit manager's unqualified opinion that based on the areas reviewed during the year, 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.
8. Seven areas were given full assurance – housing and council tax reduction scheme, car parks, travel and subsistence, contract monitoring, bank contract & arrangements, treasury management and corporate governance. Areas of weakness in the control environment have been identified in the following areas – payroll, anti-fraud and corruption policies and temporary accommodation. Where internal audit identified weaknesses which require remedial action, recommendations have been made and discussed with officers.
9. Vale of White Horse District Council  
It is the audit manager's unqualified opinion that based on the areas reviewed during the year, 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.
10. Eight areas were given full assurance – housing and council tax reduction scheme, car parks, sundry debtors, travel and subsistence, contract monitoring, bank contract and arrangements, treasury management and corporate governance. Areas of weakness in the control environment have been identified in the following areas – payroll, anti-fraud and corruption policies and temporary accommodation. Where internal audit identified weaknesses which require remedial action, recommendations have been made and discussed with officers.
11. Notwithstanding the audit manager's overall opinions, internal audit identified a number of opportunities for improving controls and procedures across the councils which officers have generally responded to positively.
12. A summary of all internal audit opinions across both councils is attached as **Appendix 1**.

## Summary of Audit Work

13. For 2014/2015, internal audit completed 428 planned audit work days. 199 days for South Oxfordshire District Council and 229 days for the Vale of White Horse District Council. This includes planned audit work, consultancy work and contingency work (i.e. investigations).
14. A total of 34 planned internal audit reviews have been undertaken. From those 34, 17 relate to SODC and 17 related to VWHDC. From the 34 completed audits, 15 (44%) achieved a full assurance rating. During the year we introduced an additional rating of substantial, and 9 audits (26.5%) achieved this. For four audits (12%) a satisfactory assurance rating was achieved. Limited assurances were appropriate for six (17.5%) audits and no reviews resulted in nil assurance being given. In total 107 recommendations to

improve controls and procedures within the councils were made. Six (5.5%) were classified as high, 31 (29%) as medium and 70 (65.5%) as low. Of the completed audits two recommendations were not agreed by management.

15. Two investigations were completed during 2014/2015 for VWHDC, and these utilised 30 days. One joint consultancy review was completed and this utilised two days. No system development work was requested.
16. A total of 21 follow-up reviews were undertaken during 2014/2015, utilising 10.5 days. From those 21, 10 related to SODC and related to VWHDC. Time has been allocated within the 2015/2016 audit plan for further follow-up work.

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

17. Specific audit reviews on corporate governance and the council's anti-fraud and corruption policies were included within the 2014/2015 annual audit plan. The corporate governance review achieved full assurance at both councils and no recommendations were made. The anti-fraud and corruption policies review achieved limited assurance due to a lack of progress in this area, and 12 recommendations were made (SODC 6 / VWHDC 6). Internal audit has undertaken proactive anti-fraud testing within 2014/2015 which raised four recommendations (SODC 1 / VWHDC 3).
18. No suspicions of fraud and corruption by officers, members or partners/contractors were reported to the audit manager during 2014/2015.
19. 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 audit manager has reviewed the nine entries within the register for 2014/15, and it was identified there was one instance where a gift was offered and accepted which did not comply with the council's policy. This was an individual monetary payment to a member of staff from an outgoing chairman. It is the audit manager's professional opinion that the payment was made wholly as a 'thank you' to the member of staff concerned and was in no way offered as a way to seek preferential treatment, however acceptance of the gift did not comply with the policy. A recommendation has been made that the policy is amended so that any offers of gifts and hospitality outside those permissible within the policy need to be approved by the councils' monitoring officer and section 151 officer.

### **Internal Audit's Performance**

20. The internal audit team was below its full complement for 2014/2015 of an audit manager (0.8FTE) and three auditors shared across both sites. The team absorbed an auditor vacancy for 5 months due to a lack of applicant interest, and had a long-term sickness absence from January – March 2015. To address some of the resource issues, a contractor was employed on a part-time basis but the contractor did not deliver on their performance targets which impacted negatively on the team's targets.

21. The performance of internal audit is measured against a number of indicators. The out-turn for 2014/2015 is as follows:

	Year Ending 31/03/14	Target 14/15	Year Ending 31/03/15
<b>Chargeable</b> (identifiable client and/or specific IA deliverable)	74.5%	74%	71.5%
<b>Non-Chargeable</b> (corporate, not IA deliverable)	7%	8%	8.5%
<b>Lost</b> (i.e. leave, study, sickness)	18.5%	18%	20%

Performance Targets	Year Ending 31/03/15
<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.	94%
<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.	55%
<b>PT5</b> To follow up 90% of final reports within 6 months of completion of audit.	67%
<b>PT6</b> To complete the audit fieldwork and issue draft reports on 100% of key financial system audits within the audit plan.	80%
<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.	56%

22. In 2014/2015 the team only achieved 3 out of 10 of the annual performance targets set. The team's planned audit work was significantly affected during Q4 (our busiest period) by the Crowmarsh fire due to following reasons:
- the audit manager was fully committed to the business continuity response;
  - the auditors were unable to work on planned audits for a period of two weeks due to a lack of IT equipment, system down-time and access issues as a direct result of the fire;
  - paper evidence relating to the planned audit work in progress at the time of the fire was lost and therefore the auditors had to recapture and collate supporting evidence for fieldwork completed;
  - there were delays recommencing the planned audit work as auditees/service areas focused their resources on service delivery and did not have the capacity to facilitate internal audit work; and
  - an auditor was on long term sick leave.

The 2014/2015 performance targets remain for 2015/2016.

## **Compliance with CIPFA Code**

23. 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. All the responses received in 2014/205 were kept in paper copy and were lost during the Crowmarsh fire. We have not received any questionnaires since the fire, but they will now be scanned and held electronically.
24. All feedback received by the audit manager is discussed with the relevant auditor. Where appropriate, the audit manager meets the officer to discuss their comments in more detail and implement any necessary process improvements.

## **Financial Implications**

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

## **Legal Implications**

26. None

## **Risk Implications**

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

ADRIANNA PARTRIDGE  
AUDIT MANAGER