

# Joint Audit and Governance Committee



Report of Assurance Manager

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To: Joint Audit and Governance Committee

DATE: 4 July 2016

## Internal audit annual report 2015/2016

### 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 2016, 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. 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 (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' risk management, control and governance processes. 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. Three areas were given full assurance – housing and council tax reduction scheme, national non-domestic rates and pro-active anti-fraud. Areas of weakness in the control environment have been identified in the following areas – procurement, payroll, elections and election payments, creditor payments, insurance, the cash office, HR recruitment, partnership performance monitoring, project management and neighbourhood planning grants. Where internal audit identified weaknesses which require remedial action, recommendations have been made and discussed with officers.
9. Notwithstanding the assurance 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.
10. A summary of all internal audit opinions across both councils is attached as **Appendix 1**.

### **Summary of Audit Work**

11. For 2015/2016, internal audit completed 469 audit work days. 232 days for South Oxfordshire District Council and 237 days for the Vale of White Horse District Council. This includes planned audit work, consultancy work and contingency work (i.e. investigations).
12. A total of 26 joint planned internal audit reviews have been undertaken. From the 52 completed audits, six (11.5%) achieved a full assurance rating. 10 audits (19%) achieved a substantial rating. For 16 audits (31%) a satisfactory assurance rating was achieved. Limited assurances were appropriate for 20 (38.5%) audits and no reviews resulted in nil assurance being given. In total 287 recommendations to improve controls and procedures within the councils were made. 50 (17.5%) were classified as high, 113 (39.5%) as medium and 124 (43%) as low. Of the completed audits 19 recommendations were not agreed by management.
13. Two joint investigations were completed during 2015/2016, and these utilised seven days. One VWHDC investigation was in progress at year end and had utilised two days. No system development work was requested.
14. A total of 21 follow-up reviews were undertaken during 2015/2016, utilising 8.5 days. From those 21, 10 related to SODC and 11 related to VWHDC. Time has been allocated within the 2016/2017 audit plan for further follow-up work.

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

15. Specific audit reviews on corporate governance, the council's anti-fraud and corruption policies and risk management were not included within the 2015/2016 annual audit plan, but a risk management audit is in the 2016/2017 planned audit schedule. Internal audit has undertaken proactive anti-fraud

testing within 2015/2016 which raised one low risk recommendation at both councils.

16. One suspicion of fraud and corruption by a partner/contractor was reported to the assurance manager during 2015/2016. A full review was undertaken but the suspicion was not substantiated. The findings of the review were shared with external audit.
17. 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 four entries declared within the register for 2015/16, and there were no concerns. A specific gifts and hospitality audit review is in the schedule for 2016/2017.

### Internal Audit's Performance

18. The internal audit team was at full complement for 2015/2016 of an assurance manager (0.8FTE) and three auditors shared across both sites. There was an auditor vacancy for three months, but this was filled by an interim contractor.
19. The performance of internal audit is measured against a number of indicators. The out-turn for 2015/2016 is as follows:

	Year Ending 31/03/15	Target 15/16	Year Ending 31/03/16
<b>Chargeable</b> (identifiable client and/or specific IA deliverable)	71.5%	74%	74%
<b>Non-Chargeable</b> (corporate, not IA deliverable)	8.5%	8%	6%
<b>Lost</b> (i.e. leave, study, sickness)	20%	18%	20%
Planned Lost	N/A	16%	12%
Unplanned Lost	N/A	2%	8%

Performance Targets	Year Ending 31/03/16
<b>PT1</b> To issue 90% of audit notifications at least 1 month before start of audit fieldwork	92%
<b>PT2</b> To issue 90% of draft audit reports within 5 working days of completion of the exit meeting.	98%
<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.	50%
<b>PT5</b> To follow up 90% of final reports within 6 months of	50%

completion of audit.	
<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.	100%

20. In 2015/2016 the team achieved seven out of 10 of the annual performance targets set. The team’s lost target was affected by a period of staff absence, and the follow up targets were affected by a management decision in Q1 to prioritise completion of the previous year’s audits delayed by the Crowmarsh fire. Notwithstanding, the assurance manager considers completion of the full audit plan to be a good team performance. The 2015/2016 performance targets remain for 2016/2017, and the team is committed to improving follow up performance.

**Compliance with CIPFA Code**

21. 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. Five responses were received in 2015/2016 and are summarised in appendix 2.
22. 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**

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

**Legal Implications**

24. None

**Risk Implications**

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

ADRIANNA PARTRIDGE  
ASSURANCE MANAGER