

Joint Audit and Governance Committee



Report of Internal Audit Manager

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To: Joint Audit and Governance Committee

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Internal audit annual report 2020/21

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 2021, and to advise the committee of the interim internal 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 Richard Green, Interim Internal Audit Manager for South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), telephone 01235 422430.

Strategic Objectives

3. Delivery of an effective internal audit function will support the councils in meeting their strategic objectives.

Background

4. The Public Sector Internal Audit Standards (PSIAS) supersede the CIPFA Code of Practice for Internal Audit that had been previously complied with by Internal Audit. Standard 2450 of the PSIAS states that the internal audit manager must produce an annual report that:
 - provides an annual internal audit opinion and report that can be used to inform the governance statement;
 - confirms the organisational independence of the internal audit activity
 - gives 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 undertaken to the work that was planned and summarises the performance of the internal audit function against its performance measures and targets;
 - comments on conformance with the PSIAS; and
 - communicates the results of the internal audit quality assurance programme and progress against any improvement plans.

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 interim internal 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 controls, and governance processes. The interim internal 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. It is the internal audit 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. 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. It should be noted that the control environment within key financial systems has remained similar since 2019/20, as five audit reports received a limited assurance rating in 2020/21, compared to six in 2019/20, although this was against a reduced number of reviews carried out.. Analysis of the eight key financial audit findings in comparison with previous years is as follows:

Key financial audit ratings	Issued in final			Issued in draft
	2018/19	2019/20	2020/21	2020/21
Full assurance	0	0	0	0
Substantial assurance	2	0	1	0
Satisfactory assurance	4	4	2	0
Limited assurance	4	6	3	2
Nil assurance	0	0	0	0
TOTALS	10	10	6	2

8. Notwithstanding the internal audit 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 within key financial systems are capital management and accounting, council tax, housing benefits and council tax reduction, payroll, and pro-active anti-fraud. It should be noted that these also received a limited assurance rating in 2019/20.
9. Where internal audit identified weaknesses, which require remedial action, recommendations have been made and discussed with officers. The three key financial audits given satisfactory/substantial assurance were general ledger, national non-domestic rates (NNDR), and treasury management.
10. A summary of the 2020/21 audits is attached as **Appendix 1a** and a comparison of the internal audit opinions across both councils against two previous years is as follows. Please note that a joint report counts as two as there can be differing assurance ratings for each council within a joint audit. As at 22 June 2021, out of a total of 14 planned audits for 200/21, 18 audits have been completed (14 final report stage, our draft report stage), one audit is in progress and four audits have been deferred.

Planned audit ratings	2018/19	2019/20	2020/21 Final	2020/21 Draft
Full assurance	2 (5%)	2 (9%)	0	0
Substantial assurance	6 (14%)	0	2	0
Satisfactory assurance	16 (38%)	18 (48%)	6 (48%)	0
Limited assurance	18 (43%)	14 (43%)	6 (43%)	4 (100%)
Nil assurance	0	0	0	0
TOTALS	42	34	14	4

Summary of Audit Work

11. For 2020/21, internal audit completed 456.5 chargeable audit workdays against a planned 592. This includes planned audit work, consultancy work and contingency work (i.e. investigations).
The original plan for 2020/21 plan was revised in July 2020 and reset to nine months availability as a result of the team being redeployed to assist with Covid-19 grants and associated work, from April to June.
12. A comparison of actual days against planned audit days for 2019/20 is attached as **Appendix 2**.
13. A total of 14 joint internal audit reviews planned 11 have been undertaken. Of the eight completed audits:
 - one achieved a substantial rating,
 - three achieved a satisfactory
 - three were given limited assurances
 - Grounds Maintenance report was a progress update and didn't include an assurance rating
14. The two draft audits have been given limited rating and the Covid-19 review draft does not have an assurance rating. The remaining three have been deferred. No reviews resulted in nil assurance being given.
15. In total 176 recommendations to improve controls and procedures within the councils were made in the completed audits.
 - 20 (11%) were classified as high,
 - 84 (48%) as medium and
 - 72 (41%) as low.
16. Ad-hoc advice is provided to service teams and a total of two days for SODC and four days for VWHDC were utilised.
17. A total of six joint follow-up reviews and one VWHDC were undertaken during 2019/20, utilising 16 days as shown at **Appendix 1b**. Time has been allocated within the 2021/22 audit plan for further follow-up work of 2019/20 and 2020/21 audits.

Issues Relevant to the Annual Governance Statement

18. Specific audit reviews on corporate governance and the council's anti-fraud and corruption policies were not included within the 2020/21 annual audit plan. However, internal audit has undertaken some limited pro-active anti-fraud testing in 2020/21 which made two medium risk recommendations and gave a limited assurance opinion at both councils. The control weaknesses were identified in relation to the processes for approving an officer's expenses and setup of a new IT user.
19. No suspicions of internal fraud and corruption were reported to the internal audit manager during 2020/21.
20. 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 internal audit manager has reviewed the officer gifts and hospitality register for 2019/20, and no declarations were made.

Internal Audit's Performance

21. The internal audit team comprised three auditors and an internal audit manager for the period 1 April 2020 to 31 March 2021. The internal audit manager took maternity leave in December and the post has been held by an interim since then.
22. The performance of internal audit is measured against a number of indicators. The out-turn for 2020/21, including comparison with the previous year, is as follows:

Performance Targets	2019/20	Target 2019/20	Year Ending 31/03/20
PT1 To issue 90% of audit notifications at least 1 month before start of audit fieldwork	91%	90%	83%
PT2 To issue 90% of draft audit reports within 5 working days of completion of the exit meeting.	89%	90%	75%
PT3 To issue 90% of final audit reports within 5 working days of receipt of the auditee's final responses to draft report and recommendations.	91%	90%	83%
PT4 To issue 90% of follow-up notifications at least 1 month before start of follow-up work.	73%	90%	100%
PT5 To follow up 90% of final reports within 6 months of completion of audit.	55%	90%	43%
PT6 To complete the audit fieldwork and issue draft reports on 100% of key financial system audits within the audit plan.	100%	100%	88%
PT7 To complete the audit fieldwork and issue draft reports on 80% of all non key financial system audits within the audit plan.	65%	80%	33%

	2019/20	Target 2019/20	Year Ending 31/03/20
PT8 Chargeable (identifiable client and/or specific IA deliverable)	72%	76%	59%
PT 9 Non-Chargeable (corporate, not IA deliverable)	15%	7%	12%
Lost (i.e. leave, study, sickness)	13%	17%	29%
PT 10 Planned Lost	11.5%	15%	16%
PT 11 Unplanned Lost	2.5%	2%	13%

23. The team’s performances were affected by the impact of Covid-19 which meant that staff availability was restricted in many services causing delays in response times as well as audits taking longer in some instances.
24. The PT7 operational audit target was impacted by Covid-19, as the internal audit team were unable to perform planned audit work during April to June 2020.
25. The move to remote working also affected the performance as there were increased one to ones and team/corporate meetings to ensure staff welfare and maintain contact to overcome any isolation concerns.
26. Notwithstanding, the interim internal audit manager considers it to be a good team performance, especially the completion of PT6, the completion of 100 per cent of key financial audits, which was achieved during a period of significant challenges for both the team and the auditees.

Quality Assurance and Improvement Programme

27. 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 2020/21 are summarised in **Appendix 3**.
28. All feedback received by the internal audit manager is discussed with the relevant auditor. Where appropriate, the internal audit manager meets the officer to discuss their comments in more detail and implement any necessary process improvements.
29. Only four feedback forms were received back but all showed that the service was rated excellent or good and had positive comments, so no improvement are considered necessary at this time. However, auditees will be reminded to complete the feedback forms to provide a clearer view of how the service is perceived and any improvements identified.
30. There is ongoing monitoring of the performance and quality of internal audit work throughout the year. All internal audit work is reviewed by the audit manager and feedback provided to auditors regarding the quality and audit technique.
31. The PSIAS require periodic internal and external assessments. An internal self-assessment, based on a PSIAS checklist provided by the Chartered Institute of Internal Auditors, is in progress and will be presented to the next committee along with an action plan to address any revisions needed to enable compliance. An

external assessment is to be completed once every five years by a qualified, independent assessor or assessment team from outside the organisation. The external assessment can be in the form of a full external assessment, or a self-assessment with independent external validation.

Compliance with the PSIAS

32. There have been no impairments to the independence of internal auditors during the period 2020/21.

Financial Implications

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

Legal Implications

34. There are no legal implications attached to this report.

Climate and Ecological Implications

35. There are no climate or environmental implications.

Risk Implications

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

RICHARD GREEN
INTERIM INTERNAL AUDIT MANAGER