

Cherwell District Council
South Northamptonshire Council

Internal Audit Annual Report & Opinion 2017/18

DRAFT
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cw audit
audit and assurance services

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1 Introduction

This annual report provides my opinion (see section 2) as the Head of Internal Audit to Cherwell District Council and South Northamptonshire Council. It also summarises the activities of Internal Audit for the period 1st April 2017 to 31st March 2018.

The Councils are required by the Accounts & Audit Regulations 2015 to “to undertake an adequate and effective internal audit of its accounting records and of its system of internal control, taking into account public sector internal auditing standards or guidance”. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide a written report to those charged with governance (in practice the relevant Committees of each Council acting as the ‘Audit’ Committee, to support the Annual Governance Statement, AGS), setting out:

- An opinion on the overall adequacy and effectiveness of the organisation’s control environment ;
- Disclose any qualifications to that opinion, together with the reasons for that qualification;
- Present a summary of the work carried out by Internal Audit during the year from which the opinion is derived, including any reliance that is being placed upon third party assurances;
- Draw attention to any issues the Head of Internal Audit deems particularly relevant to the Annual Governance Statement (AGS)

- Consider delivery and performance of the Internal Audit function against that planned;
- Comment on compliance with these Standards and the results of any quality assurance programme.

The Councils should consider my opinion, together with management assurances, their own knowledge of the organisation and assurances received throughout the year from other review bodies (such as External Audit) when producing its AGS.

My opinion takes into account the range of individual opinions arising from risk-based audit assignments that have been reported throughout the year. An internal audit plan was developed to provide you with independent assurance on the adequacy and effectiveness of systems of control across a range of financial and organisational areas. **A summary of the work we have performed and delivery against the plan is provided in section 3.**

Alongside the delivery of the operational internal audit work, we have met regularly with Council management to ensure any issues regarding our performance can be highlighted and any necessary action taken to resolve these. Following each audit, management are also requested to provide feedback on the service received. No significant issues or concerns regarding the internal audit service have been raised to date.

I have discussed and agreed this Annual Report and Head of Internal Audit Opinion with management. Further detailed findings, conclusions and recommendations in the areas covered by our internal audit plan are detailed within the progress reports and individual assignment summaries that have been issued to the Committee during the year.

2 Annual Head of Internal Audit Opinion

Roles and responsibilities

The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.

Internal Audit provides an independent and objective opinion to the organisation on the control environment and plays a vital part in advising the organisation whether these arrangements are in place and operating correctly.

The Annual Governance Statement (AGS) is an annual statement that recognises, records and publishes an authority's governance arrangements.

In accordance with PSIAS, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that Internal Audit have reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans. As such, it is one component that the organisation takes into account in making its AGS.

The Head of Internal Audit Opinion

My opinion is set out as follows:

1. Overall opinion;
2. Basis for the opinion;

My **overall opinion** is that **moderate** assurance can be given as weaknesses in the design, and inconsistent application of control, put the achievement of some of the Councils' objectives at risk. Section 3 of this report provides further details of areas where our audits have highlighted the need for improvements in the control environment.

The basis for forming my opinion is as follows:

1. An initial assessment of the design and operation of the underpinning risk management framework and supporting processes; and
2. An assessment of the range of individual opinions arising from risk-based audit assignments contained within internal audit risk-based plans that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses.
3. Any reliance that is being placed upon third party assurances.

3 Work undertaken during the year

Summary of assurances provided

During the course of the year we have conducted work to provide assurance over financial, governance and operational systems. Appendix One summarises the assurance levels we have given.

Delivery of the plan

An internal audit plan for 2017/18 was developed to provide you with independent assurance on the adequacy and effectiveness of systems of control across a range of financial and organisational areas. To achieve this our internal audit plan was divided into two broad categories; work on the financial systems that underpin your financial processing and reporting and then broader risk focused work driven essentially by principal risk areas that had been identified in your risk register. A summary of work undertaken is included below:

- We have undertaken reviews of your core financial systems (including budgetary control, medium term revenue planning, payroll, general ledger, creditors and debtors) and given generally moderate assurance with regard to the management of risk in these areas.
- Key income and expenditure systems such as Business Rates, Council Tax and Benefits have also been subject to review. Once again, moderate assurance was provided in these cases.
- We have undertaken reviews on areas of principal or identified risk and provided relevant assurance opinions in each case, including Customer Services Project (moderate assurance), Commercial Property (Limited assurance).

We note that the previous Internal Audit service highlighted certain areas (relating to Cybersecurity, Business Continuity Management and project management aspects following review on the Build project) within their annual report for 2016/17 for management to reflect as Significant Internal Control Issues. We are due to revisit Cybersecurity and Business Continuity Management in early 2018/19 to provide updated assurance. Our work has highlighted weaknesses that we consider should be regarded as Significant Internal Control Issues that would require disclosure within your AGS, in the following areas:

- Income invoicing, collection and recovery – we have noted from our work to date a range of control and compliance issues relating to systems and procedures governing the invoicing, collection and recovery of income. These issues related to our reviews on Commercial Property, Debtors Collection and Recovery, Business Rates, Council Tax and finally to Benefit Overpayments (within our work on Housing Benefits). The effectiveness of arrangements to maximise income for the two Councils is an important factor in supporting financial resilience and in achieving the Councils' objectives over the period of medium term financial plans. Management have agreed action plans to address our findings and recommendations in relation to most of these reviews; an Action Plan on Commercial Property remains to be agreed.

Further detail on the key areas highlighted in relation to this theme is set out below for information:

Limited assurance reviews:

- Commercial Property
 - the team needs to strengthen record keeping and put in place system/functionality to enable more efficient and effective asset management
 - outstanding service charges need to be collected and robust processes established and followed to ensure service charges are invoiced in a timely manner.

-written processes and procedures should be put in place in the Property & Investment Department to enable officers to administer the property portfolio in a timely, systematic fashion and ensure roles and responsibilities are clear.

a comprehensive set of procedures should be established within Joint Revenues and Recovery Services ensuring that invoices are raised in a timely fashion and clarifying responsibilities to chase debt, the recovery stages to be used and timetables for each stage of recovery action, to ensure a systematic and effective approach to debt collection.

Our draft report on this review was issued in October, and we are seeking from management agreement of an action plan to address the areas highlighted.

- Debtors Collection and recovery

- The Council should:

- Put in place a clear policy framework (eg Corporate Debt Policy) and supporting procedures for Sundry Debtors collection and recovery and ensure all stakeholders are aware of and comply with these;
- Establish and implement enforcement procedures for debtors over 28 days including enforcement agencies where relevant;
- Address various operational areas which are currently impacting on the speed and efficiency of invoice raising.
- Seek to strengthen and develop reporting capabilities and approaches used with the support of the Capita system and its supplier, to enable more efficient and effective recovery of debts.
- Monitor and formally report on performance on recovery of sundry debts to ensure there is corporate support and visibility for this function.
- Review write off processes.

Management has agreed an action plan to address the above areas.

Moderate assurance reviews

- Council Tax and Business Rates

The insourcing of CDC's service and the change of system appear to have had various impacts in relation to the key controls covered in this audit, specifically:

- the evidencing of reconciliations to show the completeness and accuracy of annual billing,
- level of collection and ability to report on, and take action on arrears for CDC, up until November 2017,
- lack of timely evidencing of agreeing the Councils' records to those of the independent Valuation Office (VO).

Currently neither Council formally monitors and reports on arrears and therefore the effectiveness of the recovery process.

A management action plan is being agreed currently.

- Benefits

As for the two areas above the outsourcing and subsequent return of processing back to an in-house service has resulted in system issues for CDC.

We identified evidencing issues with the annual uprating process for CDC.

CDC were also failing to achieve targets for processing changes of circumstances. Stringent quality and monitoring processes have been implemented and the Council aspire to have the new staff all off probation by March 2018.

We again highlighted issues regarding reconciling within processing systems and addressing data integrity reports.

Finally, across both Councils we found the levels of overpayments to be high. During the year these had increased marginally. The Councils have a plan to prevent, reduce and focus on overpayments. This had commenced implementation during our audit.

Management has agreed an action plan to address the above areas.

- Budgetary Control

There has been significant slippage on the capital programme in recent years, which is ongoing. Management is taking action to address this. We also highlighted various operational areas for improvement in budgetary processes; again we note that management has recently instigated revised processes and we will revisit these matters in 2018/19.

- Medium Term Revenue Planning/Financial Resilience

While processes to seek to ensure sound medium term revenue planning have been generally sound, there are a range of significant risks to the medium term financial position. Management is aware of these and has captured relevant risks on the Leadership Risk Register, thus action should be taken within the Councils' power to manage these risks as a result. Our findings referred to earlier in this report regarding income invoicing, collection and recovery are also relevant and impact on our opinion, given the importance of maximising income in supporting financial resilience. Effective management of capital spend in future will also be required, to ensure revenue impacts are as planned.

- General Ledger

The Council is experiencing a delay in agreeing significant sub ledger/feeder systems into the general ledger – notably payroll and fixed assets, although at the time of audit these were in the process of being performed.

The 2017/18 opening balances were also yet to be agreed and reconciled back to 2016/17 closing balances due to only recently having the 2016/17 accounts ratified by the relevant Committees.

Third party assurances

In arriving at our overall Annual Head of Internal Audit Opinion, we have not sought to place reliance on any third party assurances.

Following up of actions arising from our work

All recommendations and agreed actions are subject to an ongoing recommendation tracking process that is facilitated by CW Audit Services, but completed by the relevant managers responsible for implementing the recommendations. This is undertaken on a self-assessment basis, but is supplemented by our independent follow-up reviews where this is deemed necessary (for example following the issuance of a limited or moderate assurance report). The Councils have not at this point fully implemented the use of the system, which impacts on the degree to which assurance on implementation of agreed actions is available, and we expect to provide further reports on this matter during 2018/19.

In addition elements of our work involve annual coverage of key areas of control for the organisation, such as in relation to key financial systems, and in such cases we also routinely follow up previously-agreed actions at each review (given this is the first year of our engagement with the Councils the actions followed up, where relevant, were those agreed with the previous internal auditor).

4. Quality Assurance

All audits have been conducted in accordance with the requirements of the PSIAS, which includes evidenced review by senior management of all audit files and reports produced. I can confirm that there have been no issues of non-compliance with the PSIAS during the course of the year.

During 2017/18, CW Audit completed an extensive self-assessment against the Public Sector Internal Audit Standards (PSIAS). The Institute of Internal Auditor's (IIA) recommended checklist was used to facilitate the self-assessment exercise for the following four key areas of PSIAS:

1. Definition of Internal Auditing
2. Code of ethics
3. Attribute standards
4. Performance standards.

Under the requirements of PSIAS, external quality assessments must be also be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. This may be achieved by obtaining a comprehensive external validation of an internal self-assessment exercise. CW Audit appointed a suitably qualified and experienced external assessor to validate the self- assessment exercise.

Both the self –assessment exercise and the external quality assessment concluded that CWAS **Generally Conforms** with PSIAS for each of the four key PSIAS areas. This is the highest rating that can be achieved under the guidelines, which means that the relevant structures, policies and procedures of CWAS, as well as the processes by which they are applied, comply with the requirements of PSIAS in all **material** aspects.

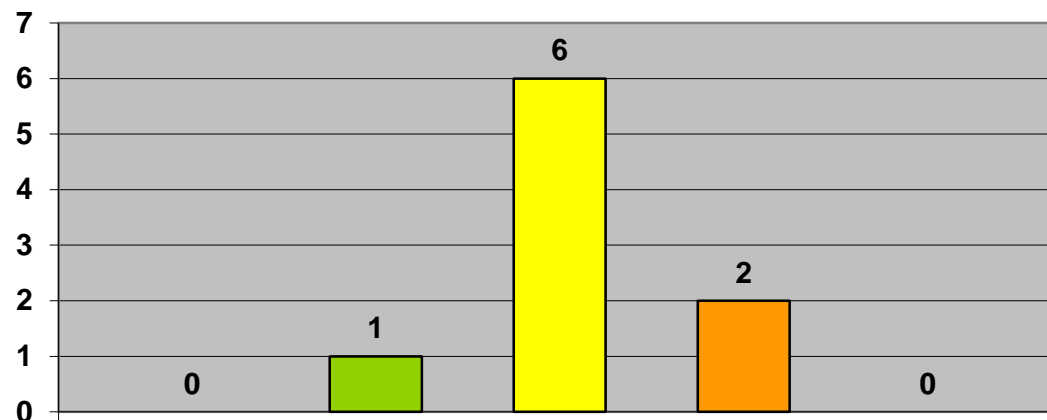
A performance improvement plan was produced as part of the self –assessment process and further recommendations were made by the external assessor that have been incorporated into this plan.

Levels of Assurance – Individual Audit Assignments

Description of audit	Assurance level
Payroll	Moderate
Customer Services project	Moderate
Commercial Property	Limited*
Debtors collection and recovery	Limited
Revenues (Council Tax, Business Rates) & Benefits	Moderate
Budgetary Control	Moderate*
Medium Term Revenue Planning	Moderate*
General Ledger	Moderate*
Creditors	Significant*
Disabled Facilities Grants (SNC only)	N/A

Where no assurance level is stated, reviews are in progress.

* indicates opinion at draft report stage



Level of assurance	Criteria
Full	No significant risk issues identified.
Significant	Exposure to levels of risk that may only impair the effectiveness of the system or process under review.
Moderate	Exposure to levels of risk that render some elements of the system's control environment undeliverable.
Limited	Exposure to unacceptable level of risk that could have a serious impact upon the system or process under review.
No	Exposure to unacceptable levels of risk that could have a serious impact upon the organisation as a whole.