

**Cherwell District Council  
South Northamptonshire Council**

**Internal Audit Annual Report & Opinion 2018/19**

**May 2019**



**cw audit**  
audit and assurance services

## Contents

<b>1 Introduction .....</b>	<b>1</b>
<b>2 Annual Head of Internal Audit Opinion.....</b>	<b>3</b>
<b>3 Work undertaken during the year.....</b>	<b>5</b>
<b>4 Quality Assurance .....</b>	<b>9</b>

# 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 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019.

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 **significant** assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weakness in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.

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 2018/19 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 and payment systems (including budgetary control & MTFP, payroll, general ledger, creditors, debtors, benefits and capital programme & project management) and given significant assurance with regard to the management of risk in these areas, with the exception of creditors, for which we provided moderate assurance.
- Key income systems such as Business Rates and Council Tax have also been subject to review. 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. Reviews of cyber security and IT disaster recovery both resulted in significant assurance being provided. Other reviews under this heading resulted in moderate assurance opinions being provided and these are summarised in the following paragraphs.

It is my view, taking account of the respective levels of assurance provided for each audit review, an assessment of the relevant weighting of each individual assignment and the extent to which agreed actions have been implemented, that you have a generally sound system of internal control.

We are pleased to report that our work has not highlighted any weaknesses that should be regarded as Significant Internal Control Issues that would require disclosure within your AGS. We did however identify some weaknesses in control that caused us to limit the level of assurance we could give in the following areas:

- **Information Governance (GDPR)**

The Councils received a consultant's report in November 2017 that provided a plan of the actions necessary to implement GDPR. This plan was supported by an internally produced project plan. Our review highlighted that progress on implementing these plans had fallen behind for a number of key GDPR requirements. The Council has a plan in place to address this and is ensuring risks in relation to this are being managed.

- **Business Continuity**

This review concluded that although progress has been made in implementing the business continuity recommendations arising from the report written by the Councils' previous internal auditors (PWC); there remained a number of areas where work is still required to achieve appropriate business continuity arrangements.



- **Procurement & Contract Management**

The audit highlighted that some contracts had been extended beyond their end date without either a re-tender exercise taking place, or a formal waiver being agreed to confirm appropriate reasons for extending the contract beyond the end date. We also noted weaknesses in the clarity and accuracy of tender evaluation records for some of the procurement exercises we reviewed. Sample testing of contract terms and conditions also highlighted the need to ensure that action to be taken in the event of poor contractor performance, and when disputes arise, is clearly documented.

- **Human Resources - Recruitment**

This audit highlighted the need for improvements in the documentation and retention of records to support shortlisting, interview and appointment processes; and to review and amend the standard contract of employment for both Councils. The requirement to implement a programme of centralised training to ensure that recruitment managers can appropriately undertake their recruitment and selection duties was also highlighted.

- **Creditor Payments**

This audit highlighted the need for formal reports on invoices that are either not supported by an order, or that are supported by a retrospective order, to be produced regularly and subject to monitoring and action where necessary.

- **Council Tax and Business Rates**

Both these systems were provided with a moderate assurance opinion, largely on the basis that resource shortages contributed to a three month suspension of debt recovery action during the summer of 2018 in order to deal with a backlog of correspondence from council tax and business rates payers. Ongoing resource management is something the councils are actively working on,

### **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**

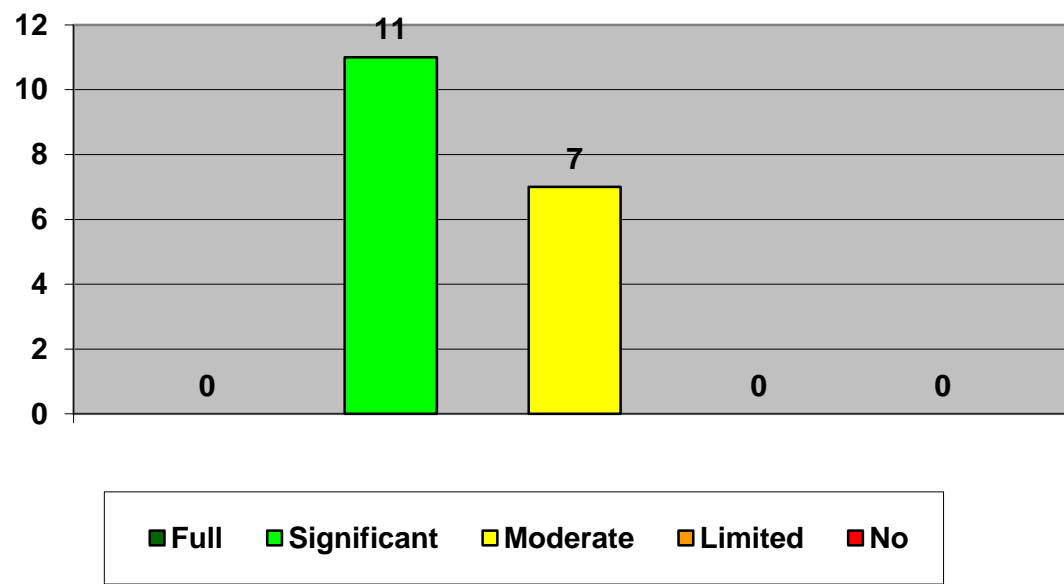
All recommendations and agreed actions are subject to an ongoing recommendation tracking process that is facilitated by CW Audit Services, but completed by the relevant managers responsible for implementing the recommendations. This is undertaken on a self-assessment basis, but is supplemented by our independent follow-up reviews where this is deemed necessary (for example following the issuance of a limited or moderate assurance report). A summary of the recommendation tracking results for the 2018/19 year is included as Appendix 2 to this report. 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.

## 4. Quality Assurance

All audits have been conducted in accordance with the requirements of the Public Sector Internal Audit Standards (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. CW Audit's systems and processes for complying with PSIAS were confirmed as appropriate to need by an external assessment that was carried out in April 2018. I can confirm that all audits completed during 2018/19 were carried out in accordance with these systems and processes.

### Levels of Assurance – Individual Audit Assignments

Description of audit	Assurance level
Cyber Security	Significant
Information Governance - GDPR	Moderate
IT Disaster Recovery	Significant
Business Continuity	Moderate
Corporate Health & Safety	Significant
Procurement & Contract Management	Moderate
Human Resources - Recruitment	Moderate
Legal Compliance	Significant
Budget Management & MTFP	Significant
Capital Programme & Project Management	Significant
Payroll	Significant
General Ledger	Significant
Creditor Payments	Moderate
Treasury Management	Significant
Council Tax	Moderate
Business Rates	Moderate
Debtors	Significant
Benefits	Significant
Homes England Grant Certification	N/A
Disabled Facilities Grants	N/A

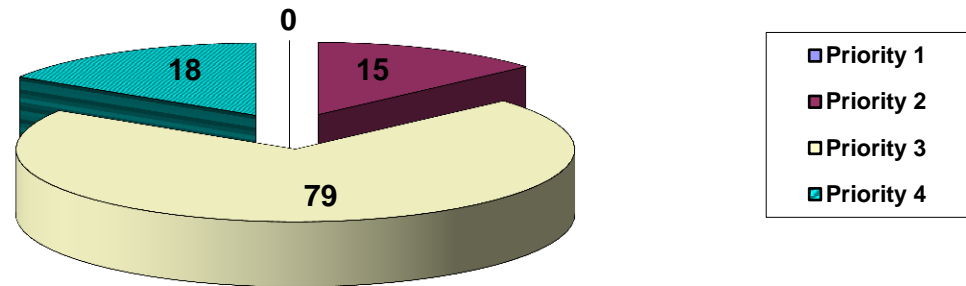


Level of assurance	Criteria
Full	No significant risk issues identified.
Significant	Exposure to levels of risk that may only impair the effectiveness of the system or process under review.
Moderate	Exposure to levels of risk that render some elements of the system's control environment undeliverable.
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.

## Summary of Internal Audit Recommendations

### Recommendations made in 2018/19

Priority	Number
1	0
2	15
3	79
4	18
<b>Total</b>	<b>112</b>



### Current status of all recommendations due for implementation by 31st March 2019

(N.B. including recommendations made by previous internal auditors (PWC), but excluding 2018/19 recommendations that fall due for implementation after 31<sup>st</sup> March 2019)

Priority	Number	Implemented	Outstanding
1	0	n/a	n/a
2	30	25	5
3	72	53	19
4	41	39	2
<b>Total</b>	<b>143</b>	<b>117</b>	<b>26</b>

