



**Policy, Finance and
Development
Committee**

Tuesday, 19 July 2016

**Matter for Information
and Decision**

Title: Annual Internal Audit Report 2015/16

Author: Martin Hone (Interim Chief Finance Officer/Section 151 Officer)

1. Introduction

As part of the Corporate Governance arrangements the Internal Audit Report is submitted to Policy, Finance & Development Committee.

The purpose of the Internal Audit Annual Report, which is attached as an appendix, is to report the key outcomes arising from the work of Internal Audit for 2015/16 and to provide an audit opinion on the adequacy and effectiveness of the Council's arrangements for governance, risk management and internal control.

The Council's Section 151 Officer is required to maintain an adequate Internal Audit service in order to help ensure the probity of the Council's financial affairs. The Internal Audit Annual Report summarises the work completed by the Council's Internal Audit provider throughout the year which results in an assurance statement and an overall Internal Audit opinion. The overall opinion may be used by the Council in the preparation of the Annual Governance Statement.

The preparation and publication of the Annual Governance Statement in accordance with the CIPFA/SOLACE governance framework is necessary to meet the statutory requirements set out in the Accounts and Audit Regulations which set out a statutory requirement for authorities to prepare a statement of internal control in accordance with proper practices. The draft Annual Governance Statement for 2015/16 is included elsewhere on tonight's agenda.

2. Recommendations

- 2.1. That the report included on the audit opinion and the adequacy and effectiveness of the Council's arrangements for governance, risk management and internal control be noted.
- 2.2. That Members support the conclusion that the Council has an effective internal audit service.

3. Information

- 3.1. The Internal Audit Annual Report (Appendix 1) provides information on the key outcomes arising from the work of the Internal Audit service for the period 1 April 2016 to 31 March 2016.

Internal Audit progress reports are presented to every meeting of the Policy, Finance & Development Committee so Members can be kept up-to-date with Internal Audit work and findings. This annual report provides an overall summary of the work undertaken for the whole year in relation to the 2015/16 approved Annual Audit Plan.

In accordance with the requirements of the Accounts and Audit Regulations 2003, 2006 and 2011, Internal Audit has a specific role within the Council's overall internal

control framework and governance arrangements, including the provision of Internal Audit's opinion of the adequacy and effectiveness of the Council's arrangements for governance, risk management and internal control. The audit opinion forms part of the Council's Annual Governance Statement. This report also meets requirements to report on the review of the effectiveness of Internal Audit and to feed results into the Annual Governance Statement.

The Assurance Statement refers to the three overall areas of Council governance: Risk Management, Control and Council Governance have been rated significant assurance with regards to the management of risk in these areas.

The Internal Audit opinion states that significant assurance can be given that there is a generally sound system of internal control designed to meet the organisations objectives and that controls have generally been applied consistently. However, some weakness in the design and/or inconsistent application controls could put the achievement of particular objectives at risk.

The Governance Statement notes that the overall opinion may be used by the Council in the preparation of the Annual Governance Statement. However, Internal Audit highlighted significant internal control issues that they considered would require disclosure within the Council's Annual Governance Statement:

3.2. *Budgetary Control/Medium Term Financial Strategy*

The review provided 'moderate assurance' and highlighted the weakening of budget monitoring and forecasting procedures due to the increased reliance on interim managers and staff through much of 2015/16 due to the unplanned absence of several senior managers. As a result, staff in the Finance Section often had to identify reasons for service level variances and to make budget outturn forecasts in isolation. The Auditor also noted in this context that at its meeting in February 2016 the PFD Committee approved the use of reserves to ensure that the originally approved revenue budget at the start of the 2015/16 financial year was not exceeded.

3.3. *Financial Systems – Key Controls Review*

The review provided 'moderate' and 'limited' assurance in relation to Creditors and Debtors respectively. The key matters highlighted related to: Creditors – compliance and evidencing of compliance, with Contract procedure Rules, and lack of independent review to confirm that any changes to the creditors masterfile were authorised and valid; Debtors – timeliness and accuracy of invoicing, and lack of debt collection, recovery and write-off processes operated during the year.

3.4. *Building Control – Value for Money Review*

The review provided 'limited assurance' and highlighted matters mainly relating to the scheme of charges and review.

3.5. *Payroll & Expenses*

The review provided 'moderate assurance' and highlighted matters relating to the agreement with and data transfer to the payroll provider, and compliance with payroll procedures.

The Head of Internal Audit's report also noted that some planned reviews have been delayed at management request, for delivery in 2016/17, and accordingly he has not reflected an assurance opinion on these reviews.

All of the matters raised by the Head of Internal Audit are currently being addressed and improvements put in place. Progress is reported regularly to the Council's Policy, Finance & Development Committee.

3.6. **Legislation/Policy**

Under the Local Government Act 1972 (Section 151) and the Accounts and Audit Regulations, the Council has a responsibility to maintain an adequate and effective Internal Audit function. At Oadby & Wigston Borough Council this responsibility is delivered by CW Audit Services. In responding to this requirement the Internal Audit service works to best practice as set out in the 2006 Code of Practice for Internal Audit in Local Government in the UK which is published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

3.7. **Relevant Considerations**

There are no other relevant considerations from this report.

Background Documents:-

Agenda and Minutes from Meetings of the Policy, Finance & Development Committee 2015/16

Accounts and Audit Regulations 2003, 2006, 2011

Code of Practice for Internal Audit of Local Government in the UK 2006 (CIPFA).

Email: martin.hone@oadby-wigston.gov.uk

Tel: (0116) 257 2621

Implications	
Financial (MHo)	There are no financial implications arising from this report.
Legal (MHo)	Please see section 4 above.
Risk (MHo)	Relevant risks and opportunities in conjunction with this matter have been considered and are referred to in the body of the report as appropriate.
Equalities (MHo)	There are no direct inclusion, diversity or community cohesion implications arising from this report.
	Equality Assessment:-
	<input type="checkbox"/> Initial Screening <input type="checkbox"/> Full Assessment <input checked="" type="checkbox"/> Not Applicable

Attached to this Report as an Appendix is the CW Audit Services Oadby & Wigston Borough Council Annual Internal Audit Report 2015/16, June 2016.

Organisational issues arising from the investigation into the grievance brought by Council senior managers against the Council's Senior Management Team

In May 2015 a collective grievance raised by a number of officers against the Chief Executive, Director of Services and Director of Finance. Through the Local Government Association an Independent Investigator was appointed to look into the grievances. In the event, the Investigator found none of the grievances to be substantiated, and this was reported to the Council's Change Management Committee in April 2016.

As a by-product of this, the Council agreed two action plans – one for immediate action which is currently being delivered, and a plan for further review of key aspects of the Council's operation that cannot be addressed in the immediate short-term. The Council is being supported in this work by the Local Government Association. The project is led at an officer level by the Chief Financial Officer on behalf of the Senior Management Team, who reports regularly on progress to the Change Management Committee.

The associated risks have been identified, remain under close review and will be managed throughout the year given that they are key to ensuring the continued delivery of high quality services. Action plans and programmes of monitoring and evaluation are in place and are regularly updated to support both of these issues over the current and future years.

Background Documents:-

CIPFA/SOLACE - Delivering good governance in Local Government
Oadby & Wigston Borough Council – Local Code of Corporate Governance
KPMG - Annual Audit and Inspection Letter
Internal Audit - Annual Report 2015/16

Email: martin.hone@oadby-wigston.gov.uk

Tel: (0116) 257 2621

Implications	
Financial (MHo)	Robust scrutiny of the Council's AGS and framework applied in line with best practice will further strengthen the Council's sound base of strong financial management and assist in reducing risk.
Legal (AC)	The preparation and publication of the AGS in accordance with the CIPFA/SOLACE framework is necessary to meet the statutory requirements set out in Regulation 4(3) in the Accounts and Audit Regulations 2011. Effective corporate governance practice is essential if the Council is to demonstrate that it is acting in the best interests of the communities it serves. The Council's governance arrangements are tested through audit and other means of scrutiny.
Risk (MHo)	A strong internal control environment contributes to the overall effective management of the Council and will minimise the risk of the Council failing to achieve its ambitions, priorities and service improvements.
Equalities (AC)	Ensuring the Council has arrangements in place to ensure inclusion, diversity and community cohesion forms part of the Council's governance arrangements.
	Equality Assessment:-
	<input type="checkbox"/> Initial Screening <input type="checkbox"/> Full Assessment <input checked="" type="checkbox"/> Not Applicable