

Oadby & Wigston Borough Council

Internal Audit Annual Report & Opinion 2016/17 FINAL

October 2017



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 Oadby & Wigston Borough Council. It also summarises the activities of Internal Audit for the period 1st April 2016 to 31st March 2017.

The Council is 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, to support the Annual Governance Statement, AGS), setting out:

- An opinion on the overall adequacy and effectiveness of the Council'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 Council should consider my opinion, together with management assurances, its own knowledge of the Council 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 could 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. 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.

2 Annual Head of Internal Audit Opinion

Roles and responsibilities

The Council 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 Council on the control environment and plays a vital part in advising the Council whether these arrangements are in place and operating correctly.

The Annual Governance Statement (AGS) is an annual statement by the Leader and Chief Executive 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 Council's risk management, control and governance processes (i.e. the Council's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Policy, Finance & Development 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 Council. The opinion is substantially derived from the conduct of risk-based plans. As such, it is one component that the Council 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 Council'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 2016/17 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:

- During the year we have undertaken reviews of your core financial systems (including MTFS/budgetary control, payroll, creditors and income/debtors), and have provided moderate assurance in certain of these.
- Key income and expenditure systems such as Council Tax, Business Rates and Benefits have been subject to audit review. Controls were found to be operating generally effectively.
- We have undertaken a number of pieces of work on areas of principal risk. In general we have been able to conclude that these systems are robust and operate in a good control environment.

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.

However, we have highlighted during the year Significant Internal Control Issues that we consider would require disclosure within your AGS. These are set out below:

- We have noted in several of our reviews issues regarding the extent to which the Council is able to ensure, and demonstrate, that it achieves value for money from its procurement of goods and services. Key findings on this matter were highlighted in several of our reviews referred to below in which 'moderate assurance' was provided.

We also note here the need for the Council to ensure it has in place clear and deliverable plans to make necessary savings to achieve financial balance in future years, as referred to in our MTFS/Budgetary Control review.

We identified some further weaknesses in control that caused us to limit the level of assurance we could give in the following areas:

- Budgetary Control/Medium Term Financial Strategy – our report on this review provided 'moderate assurance' and highlighted:
 - The Council needs to urgently confirm and implement robust savings plans to support its strategy to achieve financial balance over the term of the current MTFS, and roll forward the MTFS for later years.
 - Compliance with Financial Regulations when authorising virements and supplementary budget requests and timely updating of the ledger thereafter needs to be ensured.
 - Financial training for budget holders and other relevant officers, and members needs to be established.
- Creditors (including procurement) – our report on this review provided 'moderate assurance' and highlighted the need:
 - To ensure that documentation is retained and readily available for reference, so that the Council has assurance that it is complying with procurement law, internal rules and good practices.

- To ensure the basis for goods/services receipting can be supported by appropriate documentation and readily available for reference, to ensure payment is only made when properly due.
- The requirement to ensure that all creditor masterfile changes are valid and accurate.
- Payroll –our report on this review provided moderate assurance and highlighted:
 - The annual SLA with the payroll provider (EMSS) needs to be signed as near as possible to the start of the financial year after a detailed review of the terms and conditions. The Council needs to insist on receiving reports from EMSS for monitoring service delivery and on independent audit assurance of their payroll processes and procedures.
 - Checks must be introduced to confirm the accuracy and validity of the processing of the payroll prior to the BACS payment run.
 - Errors and omissions noted in relation to claims processing and leavers processing need to be addressed.
- Void Property Management – our report provided ‘moderate assurance’ with the key issues as follows:
 - Failure to record issues encountered resulting in turnaround times in excess of the target of 20 working days.
 - Non-compliance with Contract Procedure Rules where only one quotation is received and the lack of audit trail in relation to authorisation of purchase orders being issued (this issue is reflected in commentary above regarding the Council’s approach to procurement).
 - The lack of budget monitoring of individual void jobs.
- Housing Responsive Repairs – our report on this review provided ‘moderate assurance’ and highlighted:
 - Market testing of contractors is currently not consistently performed and evidenced.
 - The Council had an inconsistent approach to recharging eligible repairs to tenants.
 - The Council has not been undertaking post inspection works in accordance with its 2014 Policy although some were being done at the discretion of the Property Officer. The ones that were being done were not recorded.

- Contractor performance data is captured but not analysed or reported upon.

We also note that two reviews are not yet completed to the point at which an assurance opinion can be provided (Food Hygiene and Grant Aid-value for money review). These reviews are not fundamental to our annual opinion.

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 2016/17 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 Council, such as in relation to key financial systems, and in such cases we also routinely follow up previously-agreed actions at each review.

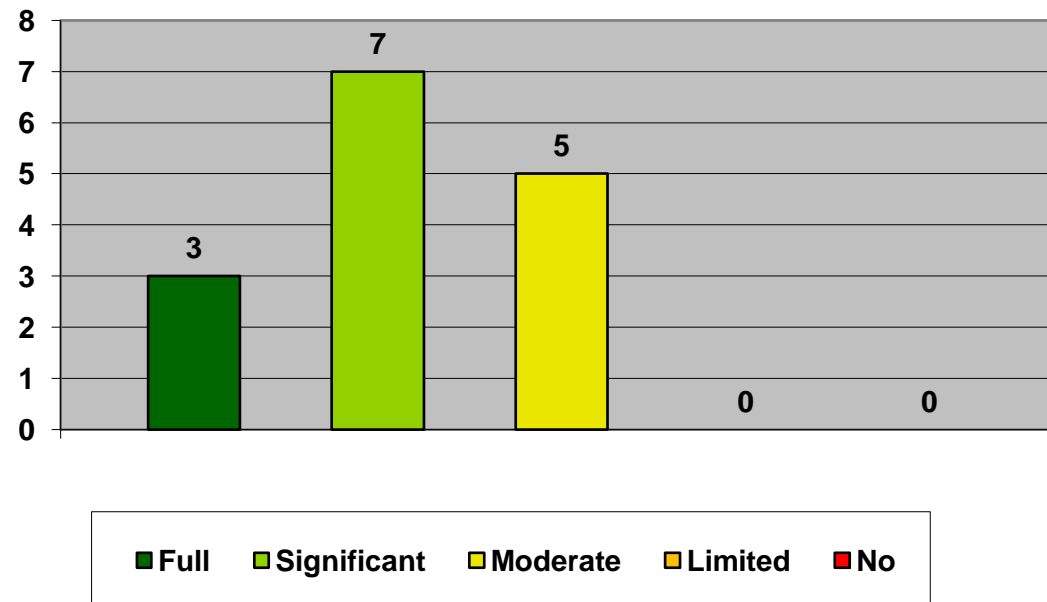
Closing remarks

I have discussed and agreed this Annual Report and Head of Internal Audit Opinion with the Section 151 Officer. Further detailed findings, conclusions and recommendations in the areas covered by our internal audit plan are detailed within the progress reports and individual assignment reports that have been issued to the Policy, Finance & Development Committee during the year.

Levels of Assurance – Individual Audit Assignments

Description of audit	Assurance level
Budgetary Control/Medium Term Financial Strategy	Moderate
Main Accounting	Significant
Creditors	Moderate
Debtors	Full
Treasury Management	Full
Income Management & Cash Receipting	Full
Grant Aid – Value for money review	Not yet available
Food Hygiene	Not yet available
Payroll & Expenses	Moderate
Council Tax	Significant
Business Rates	Significant
Benefits	Significant
Housing Rents	Significant
Housing – responsive repairs	Moderate
Void Property Management	Moderate
Health & Safety – ‘Depot Services’	Significant
Vehicle procurement and management	Significant

*-at draft report stage



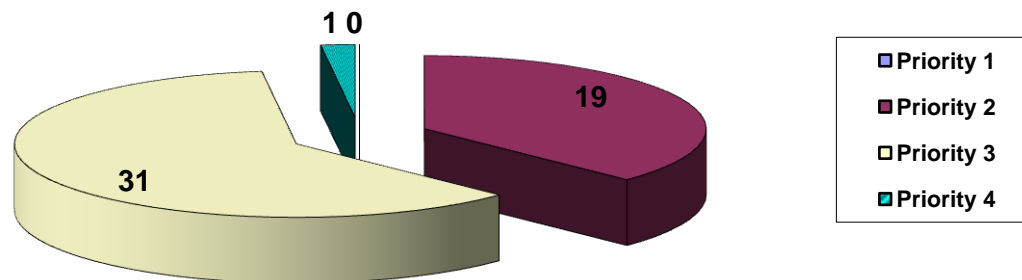
Level of assurance	Criteria
Full	No significant risk issues identified.
Significant	Exposure to levels of risk that may only impair the effectiveness of the system or process under review.
Moderate	Exposure to levels of risk that render some elements of the system's control environment undeliverable.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

NB – other reviews carried out were advisory in nature and did not provide specific assurance opinions.

Summary of Internal Audit Recommendations

Recommendations made re 2016/17 (finalised audit reports only)

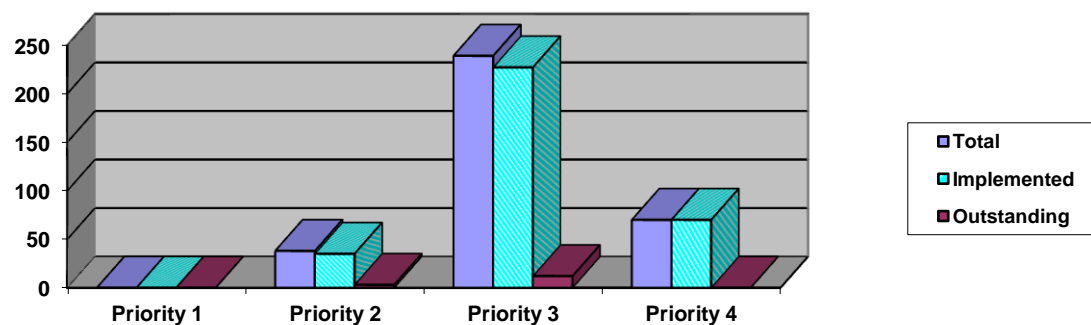
Priority	Number
1	0
2	19
3	31
4	1
Total	51



Current status of all recommendations due for implementation by 31st March 2017

(N.B. including recommendations made from 2014/15 to 2016/17, but excluding 2016/17 recommendations that fall due for implementation after 31st March 2017)

Priority	Number	Implemented/ closed	Outstanding
1	0	n/a	n/a
2	38	35	3
3	239	227	12
4	70	70	0
Total	347	332	15



Definition of our risk priority rankings

Risk ranking	Assessment rationale
1	The system has been subject to high levels of risk that have, or could, prevent the system from meeting its objectives, and which may also impact on the delivery of one or more of the Council's strategic objectives.
2	The system has been subject to high levels of risk that have, or could, prevent the system from meeting its objectives, but which are unlikely to impact on any of the Council's strategic objectives.
3	The system has been subject to medium levels of risk that have, or could, impair the system from meeting its objectives.
4	The system has been subject to low levels of risk that have, or could, reduce its operational effectiveness.