

# Oadby & Wigston Borough Council

## Internal Audit Annual Report & Opinion 2017/18

May 2018



**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>8</b>

# 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 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018.

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 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 Council should consider my opinion, together with management assurances, its 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 reports that have been issued to the Policy, Finance & Development Committee (acting as the Audit 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 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 agreed with management. A summary of work undertaken is included below:

- During the year we have undertaken reviews of your core financial systems and given significant assurance with regard to the management of risk in these areas.
- Key income and expenditure systems such as Council Tax, Business Rates and Benefits have been subject to detailed audit review. Once again, controls were found to be operating 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.

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:

**Section 106 agreements:**

- Documented evidence to confirm that the statutory tests as required by R122(2) of the CIL Regulations has been met for each S106 Agreement should be retained.
- Management should review all developer contributions historically owed to the Council under S106 agreements and determine which ones should be pursued for recovery in consultation with the Director of Finance and Transformation. Focus needs to be maintained on delivering a number of infrastructure projects recently agreed at Council that are to be funded by S106 income

**Creditor payments:**

- Whilst we provided an overall significant assurance opinion for our work on financial systems, it should be noted that, for the first nine months of the 2017/18 year, there was a breakdown in the control to ensure that changes to the creditors Masterfile are independently checked. The financial systems audit, which was completed in the final quarter of the year, confirmed that this weakness was addressed in January 2018.

## **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 2017/18 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 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.

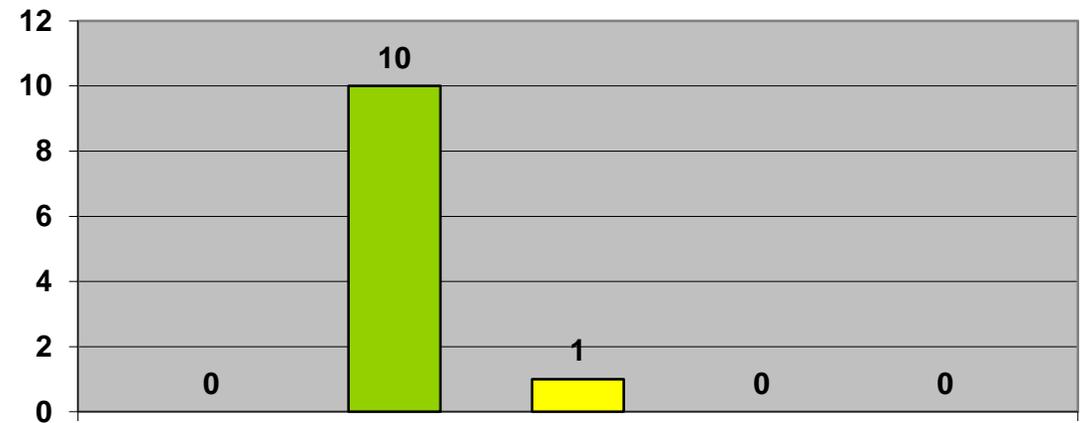
Under the requirements of PSIAS, external quality assessments must be also be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. This may be achieved by obtaining a comprehensive external validation of an internal self-assessment 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
Business Continuity	Significant
IT & Information Risk Assessment	Not applicable
Budgetary Control/Medium Term Financial Planning	Significant
Financial Systems – key controls	Significant
IT Contract Assurance	Significant
Payroll and expenses	Significant
Council Tax	Significant
Business Rates	Significant
Benefits/Council Tax Support	Significant
Section 106 Agreements	Moderate
Housing Rents	Significant
Fuel and Valuable Asset Control	Significant
GDPR preparations	Not applicable



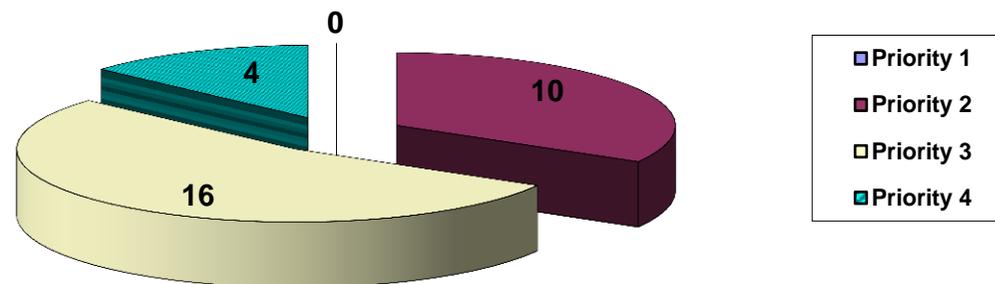
■ Full   
 ■ Significant   
 ■ Moderate   
 ■ Limited   
 ■ No

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 2017/18

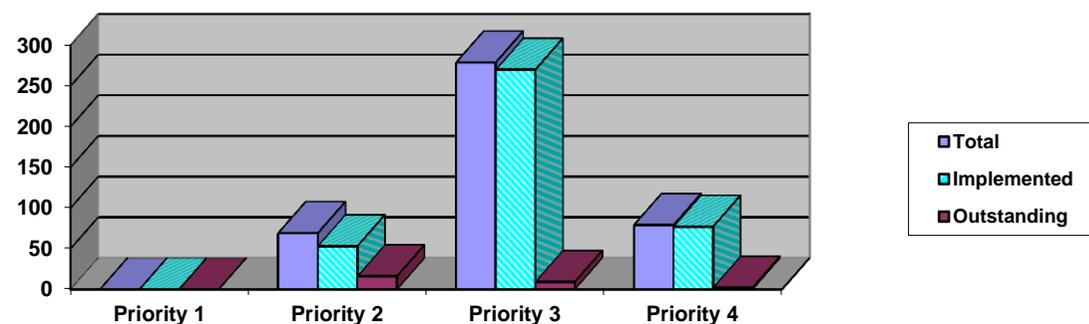
Priority	Number
1	0
2	10
3	16
4	4
<b>Total</b>	<b>30</b>



### Current status of all recommendations due for implementation by 31st March 2018

(N.B. including recommendations made from 2015/16 to 2017/18, but excluding 2017/18 recommendations that fall due for implementation after 31<sup>st</sup> March 2018)

Priority	Number	Implemented	Outstanding
1	0	n/a	n/a
2	69	53	16
3	279	270	9
4	79	77	2
<b>Total</b>	<b>427</b>	<b>400</b>	<b>27</b>



## Definition of our risk 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 organisation'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 organisation'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.