

# Oadby & Wigston Borough Council

## Internal Audit Annual Report & Opinion 2019/20

June 2020



**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 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020.

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 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. In considering this opinion, it should be noted that that we were unable to complete the full 2019/20 audit plan due to the impact of the COVID-19 outbreak. Further details on how our work was affected are provided in the following section. Despite this, it is my opinion that we were able to complete sufficient work on the Council's key systems to provide a balanced audit opinion, with the caveat that there may be some weaknesses in the areas that we had originally planned to review that we have not been able to bring to management's attention.

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.

## Impact of COVID-19

We were delivering a number of our audits during March 19 at the time of the COVID-19 outbreak and subsequent lockdown. Due to the significant workloads placed on Council officers at that time, most notably in respect of implementing government policy on supporting local businesses, it became increasingly difficult for us to continue with these audits, or start other planned audits. In consultation with the Deputy Chief Executive, we instead provided support to the team responsible for making business grant payments and benefits payments.

Whilst we were unable to provide full reports and opinions for audits that had to be suspended, we were able to provide management with independent assessments on areas that require further improvement.

## Delivery of the plan

A summary of the audits we were able to complete 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, with the exception of Debtors, which we ranked as moderate.
- 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 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:

**Risk Management:**

- Whilst this review was able to confirm that key risk areas are subject to review and reporting through the Council's existing governance structure, we have highlighted the need for an approved risk management framework, strategy or policy to govern and formalise the process for identifying, documenting and reporting on risks and their management. Action has been agreed to undertake a detailed review of the Council's approach to risk management, which will result in the production of a formal Risk Management Strategy that will be embedded throughout the organisation. This action is currently underway.

**Debtors:**

- This audit highlighted the general need to tighten up on the application of the Council's debt recovery routines for sundry debtors.

**IT Application Security:**

- Our review of three key IT applications (Human Resources, Academy Revenue and Benefits and the Orchard Housing system) identified a number of control weaknesses that presented risks of unauthorised access and unauthorised changes to system configurations and data. We can confirm that action has now been taken for a number of the weaknesses highlighted by this audit, with other improvement work currently ongoing.



### **Safeguarding:**

- This audit highlighted the need to review the process for ensuring that DBS checks on employees, where these are deemed necessary, are fully documented and safely retained. Our recommendation tracking system indicates that action to address this point has been successfully implemented.

### **Housing:**

- Whilst we were unable to complete sufficient work on our housing audits before the COVID-19 lockdown came into force to provide a formal assurance opinion; we did note that management has compiled a comprehensive action plan to address a number of weaknesses recently identified in the Council's systems and processes for managing the condition of its social housing stock. The evidence we were able to obtain provided some assurance that resources are in place to deliver the action plan, but this will need to be kept under close review to ensure successful implementation.

**Whilst not related to the work we have completed during 2019/20, we are recommending to all our clients that the impact/potential impact of the COVID-19 pandemic (for instance on HR, service delivery/capacity, existing systems/controls and budgets) be strongly considered for disclosure as a Significant Internal Control Issue.**

### **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

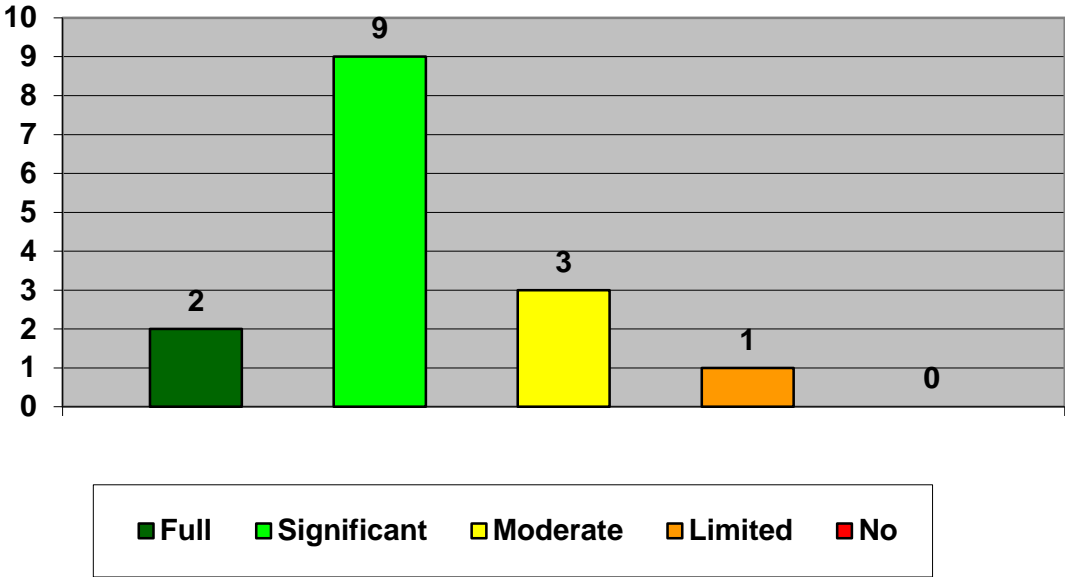
All recommendations and agreed actions are subject to an ongoing recommendation tracking process that is facilitated by CW Audit Services, but completed by the relevant managers responsible for implementing the recommendations. This is undertaken on a self-assessment basis, but is supplemented by our 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 2019/20 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 by an external assessment that was carried out in April 2018. I can confirm that all audits completed during 2019/20 were carried out in accordance with these systems and processes.

## Levels of Assurance – Individual Audit Assignments

Description of audit	Assurance level
Risk Management	Moderate
Capital Programme	N/A – COVID-19
Anti Fraud & Corruption	Advisory
Budgetary Control / MTFS	Significant
General Ledger	Significant
Creditor Payments	Significant
Debtors	Moderate
Treasury Management	Full
Income Management & Cash Receipting	Full
IT Application Security	Limited
Software Asset Management	Significant
Payroll & Expenses	Significant
Council Tax	Significant
Business Rates	Significant
Benefits/Council Tax Support	Significant
Housing Rents	Significant
Housing Audits (procurement/repairs/voids)Repairs &	N/A – COVID-19
Safeguarding	Moderate

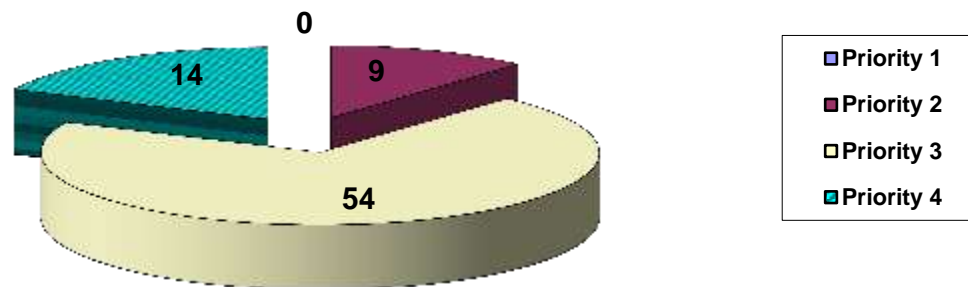


Level of assurance	Criteria
Full	No significant risk issues identified.
Significant	Exposure to levels of risk that may only impair the effectiveness of the system or process under review.
Moderate	Exposure to levels of risk that render some elements of the system’s control environment undeliverable.
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 2019/20

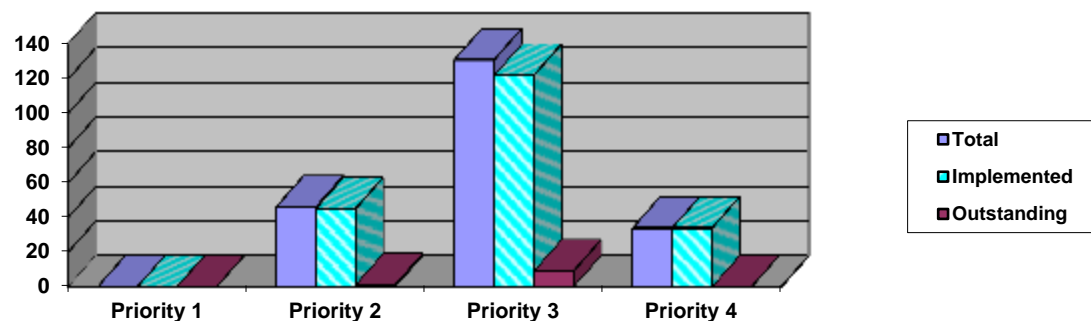
Priority	Number
1	0
2	9
3	54
4	14
<b>Total</b>	<b>77</b>



### Current status of all recommendations due for implementation by 31st March 2020

(N.B. including recommendations made from 2017/18 to 2019/20, but excluding 2019/20 recommendations that fall due for implementation after 31<sup>st</sup> March 2020)

Priority	Number	Implemented	Outstanding
1	0	n/a	n/a
2	46	45	1
3	131	122	9
4	34	34	0
<b>Total</b>	<b>211</b>	<b>201</b>	<b>10</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.