



'Working in partnership for a sustainable, high quality service'

INTERNAL AUDIT REPORT
Cotswold District Council

Annual Internal Audit Opinion 2014-15

Introduction

In April 2012 Cheltenham Borough Council and West Oxfordshire District Council delegated their Internal Audit services to Cotswold District Council. This partnership is known as 'Audit Cotswolds' and provides the internal audit services for the Council. This service is required by statute. A significant part of the modern role of the service is the provision of a broad control evaluation function, by either offering or supporting control assurances gained through activities like risk management, performance management, complaints systems and external inspection.

Good practice guidance suggests that the Internal Audit Annual Report should include the key areas of;

- An opinion on the overall adequacy and effectiveness of the control environment,
- A summary of the work from which the opinion is derived,
- Comment on compliance with the Public Sector Internal Audit Standards,
- A summary of service performance against its performance measures,
- Detail the internal audit quality assurance process and results.

This report makes comment on each of these and a number of other matters.

Responsibilities

It is a management responsibility to develop and maintain the internal control framework and to ensure compliance with it. During 2014/15, the Audit and Scrutiny Committee was responsible for obtaining assurance in respect of the control environment operating, part of which comes from the work and opinion of internal audit. The Council has changed its governance arrangements with effect from the 2015/16 municipal year and this responsibility now rests with the Council's Audit Committee.

Opinion on the overall adequacy and effectiveness of the control environment

This Annual Report gives my opinion as the Head of Internal Audit and therefore the officer responsible for the delivery of the internal audit function, which includes assessing the adequacy and effectiveness of internal control within Cotswold District Council. My opinion is based on the adequacy of control, noted from a selection of risk-based audits carried out during the year and, other advice work on control systems including the proactive work of the service as it supports the control arrangements within change projects. The results of any external inspections also inform the opinion.

Throughout the year we have measured the degree of control assurance within the systems or elements of systems we have audited or supported by way of control advice. Overall, it is my opinion that a **satisfactory assurance** level can be given for the controls in place, within the areas where audit activity has taken place, to safeguard these systems which in turn support the delivery of the Council's overall business objectives.

Where operational control issues were raised, these are subject to agreed action plans that mitigate risk or the auditors control advice is incorporated within the risk management arrangements for projects and system development or change.

A formal opinion statement is included in **Appendix 1**.

The Council's Annual Governance Statement (AGS)

The opinion of the Head of Internal Audit on the control environment forms part of the evidence supporting the Council's Annual Governance Statement. The primary basis for this opinion, the work undertaken during the year, is detailed within Appendix A. There were matters arising from the work during the year that were deemed a significant control weakness by a 'limited assurance' opinion, these are detailed below. In these areas, the risks associated with the control issues raised in the audit reports are being actively managed by the responsible Management.

Compliance with the Public Sector Internal Audit Standards

As well as offering an opinion based on the work undertaken during the year, the Annual Report should also provide the Senior Management and the Audit Committee with assurance that the internal audit service complies with professional internal auditing standards.

It is a requirement of the Accounts and Audit Regulations that Local Authorities undertake an annual review of the effectiveness of its internal audit provision.

In 2014-15 the Audit Cotswold partnership was restructured. The restructure was, in part, informed by an external review of our compliance with the new CIPFA Public Sector Internal Audit Standards. The restructure has now enabled the partnership to demonstrate compliance with the new standards.

Quality Assurance Arrangements and Performance

There is a two stage review process to ensure the quality of the service. The Audit Partnership Board operates under a Terms of Reference that was adopted on the 1st April 2012 as part of the Section 101 Agreement. The Terms of Reference clearly identify under the section 'Responsibility' that there is a requirement for the Partnership Board to monitor performance and effectiveness. The Audit Partnership Board members are the S151 Officers and act as our client officers to ensure quality of service

The second stage relates to specific audit review work. There is a robust quality assurance process in place for all audit review work that includes the following:

- The Head of the Audit Partnership is responsible for:
 - Developing an annual risk based plan in consultation with senior management
 - Ensure that the plan remains relevant through the year by realigning to new and emerging risks if necessary
 - Escalation of significant audit issues to the appropriate level to ensure risks are appropriately mitigated in line with management's risk appetite
 - Provision of training to audit staff to ensure continual professional development requirements are delivered and any specialist areas identified in the plan can be resourced e.g. environmental auditing.
- New manager positions in the structure are tasked with:
 - Conducting periodic meetings with the auditor during site work,
 - Review and approval of the draft report,
 - Review and assessment of the working file,
 - Agreement of the 'points forward', the issues for consideration at next audit review or for the next audit plan

Further quality assurance is provided through the use of formal appraisal schemes and other staff based codes and programmes.

Effectiveness of Internal Audit

Although the above sections of this report outline compliance with national standards there is no national measurement of effectiveness. Indications are that we provide an effective service, actual measurements and evidence is provided through locally driven feedback and comparison through membership of the CIPFA benchmarking group, and that management are proactive in audit planning and responsive to recommendations and advice. We have an Audit Charter and work to an approved annual plan, there is now a directing audit strategy, with the main drivers coming from the business case objectives. The Audit Charter and the Annual Plan demonstrates what the Council wishes from its internal audit service, for example the relationship or balance between financial, governance, and operational assurance, consultancy type work, value for money activity and counter fraud work. Whereas the Strategy provides details on the resources needed to meet these service requirements

Developing the Internal Audit planning process

The Audit Plan for 2014/15 was developed using a risk based process. In accordance with professional best practice there has been an increasing link between audit activity and the Council's risk management process and several reviews were undertaken on areas identified in risk registers. Although the audit plan approved at the start of the year is the basis for the year's activities the service needs to be responsive to emerging risks. The development of a business case for Counter Fraud was an example in 2014/15 of unplanned work.

Resourcing

The service is now delivered by Audit Cotswolds. This partnership has enhanced the resilience and skills base of the service. The service through 2014/15 was delivered by a team with the following professional institute backgrounds:

- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Chartered Institute of Internal Auditors (IIA)
- Chartered Management Institute (CMI)
- Chartered Institute of Management Accountants (CIMA)
- Institute of Management Services (IMS)
- Association of Accounting Technicians (AAT)
- Association of Chartered Certified Accountants (ACCA)

Furthermore there is now a considerable amount of internal audit experience available, many of these gained at senior management level and drawn from both the public and private sectors.

A supportive network has developed in recent years between the Internal Audit Sections across the Gloucestershire Districts. We have provided audit assurance to the GO Shared Service with a working relationship with the Internal Audit team at the Forest of Dean DC.

There is an agreement with the Chief Finance Officer that funding will be made available to engage 'specialist' audit or 'professional' skills should an audit activity demand this, which supports the Code of Practice which requires access to such skills if needed.

Training undertaken during the year

Audit work demands a sound understanding of all sectors of the organisation, of professional standards, of developing and emerging trends, and of issues both with the profession (including professional requirements for continuing professional development (CPD)) and local government for the services provided to the Council. During the year the following training was undertaken:

- Continuing professional development – CIPFA audit training seminars
- IIA professional update sessions and attendance at the South West region conference
- Attendance at the CIPFA annual audit conference
- One member of the team completed their second year of the 'MSc Audit Management and Consultancy' which embodies the Chartered Institute of Internal Auditors professional qualification. They also gained the CMIIA designation
- Attendance and presentation to the Institute of Internal Auditors International Conference July 2014
- One member of the team is two years into a PhD on Shared Service Governance in Local Authorities

Looking forward

The past year has seen the establishment of multiple shared service models which require different internal audit skills. Therefore the training programme has focused on expanding the skills necessary to engage in the different roles required for the different shared services. This will include further development of working practices and audit related ICT systems. This will ensure a sustainable, high quality service will continue to be delivered for the Council.

Conclusion

During the year, Audit Cotswolds delivered a programme of work and responded to emerging issues. The service continues to make a valuable contribution to an improving control environment and culture within the Council.

The work, support and advice provided by Audit Cotswolds will be key in relation to the controls and their effectiveness in the management of risk as the Council seeks to; meet efficiency targets, reduce its budget, review its methods and approach to service delivery, embrace new challenges, increase partnership working and advances the shared services agenda.

Robert Milford MA PGDip CMgr FCMI CMIIA MMS

Head of Audit Cotswolds (Head of Internal Audit)

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Cotswold District Council

Head of Internal AuditOpinion on the effectiveness of the system of Internal Control for the year ended 31
March 2015**Roles and responsibilities**

The whole Council is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS), is an annual statement from the Chief Executive and the Leader of the Council, on behalf of the Council, setting out the governance control environment, the review of its effectiveness, the control issues and the actions planned to further improve the control environment.

The Council's control assurance framework should bring together all of the evidence required to support the Annual Assurance Statement requirements.

In accordance with Public Sector Internal Audit Standards, the Head of Internal Audit 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 control arrangements. This is achieved through a risk-based programme of activities, agreed with management and approved, for 2014/15, by the Audit and Scrutiny Committee, which should provide a level of assurance across a range of Council activities. The opinion does not imply that the internal audit service has reviewed all risks and controls relating to the Council or the systems it reviews.

The Head of Internal Audit Opinion

The purpose of my annual Head of Internal Audit Opinion is to contribute to the assurances available to the Chief Executive and the Council which underpin the Council's own assessment of the effectiveness of the authority's system of internal control. This opinion is one component that the Council must take into account when completing its Annual Governance Statement.

My opinion is set out as follows:

1. Overall opinion;
2. Basis for the opinion;
3. Commentary.

My **overall opinion** is that

Satisfactory 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. Some weakness in the design and/or inconsistent application of controls have been identified, recommendations made and improvement plans agreed.

The **basis** for forming my opinion is as follows:

1. An awareness of the design and operation of the processes which underpin the overall control framework, and
2. An assessment of the range of individual opinions arising from risk-based internal audit assignments, contained within internal audit's risk-based plan 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.

Additional areas of work that support my opinion;

3. The outcome of other external inspections of internal control systems throughout the year, for example reports provided by Audit Commission and latterly Grant Thornton

The **commentary** below provides the context for my opinion.

The range of individual opinions arising from risk-based audit assignments, contained within the annual plan that have been reported throughout the year.

A table of internal audit work in 2014/15 is detailed in **Appendix (i)**.

The authority has continued to develop shared working arrangements with West Oxfordshire DC both in terms of senior management arrangements and service delivery. The closer working has brought change to the governance arrangements for a number of services. The control environment within key financial systems underwent significant change in 2012/13 with the introduction of the GO Shared Service, a service which has evolved and become further established during 2014/15. Some of the key control areas within governance and service delivery activities are being developed by managers as a result of agreed action plans, following internal audit reviews.

There was one area where a 'Limited Assurance' opinion was deemed appropriate and one that showed a significant change in governance that warrants further detail in this report:

- The internal audit of social media required an interim report to be issued due to significant control weaknesses. There was a range of compliance and control weaknesses including non-compliance with Council guidance, a need for review of 'Liking'/'Following' processes and a lack of register for media accounts. This report was presented to senior management and an action plan agreed to resolve the issues.
- During 2014/15, the Council engaged in the 2020 Vision Programme with Cheltenham Borough Council, Forest of Dean District Council and West Oxfordshire District Council. As part of this programme, the Chief Executive and one of the Strategic Directors were engaged upon programme work on an interim basis. Arrangements were put in place for the Strategic Director (Corporate Resources) to act as the Head of Paid Service during the interim period. Audit Cotswolds was appointed in 2014/15 as the assurance provider to this programme and days have been allocated to the 2015/16 plan accordingly.

In 2014/15 audit monitoring reports were presented to the Audit and Scrutiny Committee. These reports provided details of audit activity quarterly through the year. Within these reports details of all finalised audit reports were provided for Audit and Scrutiny Committee comment along with information relating to the service.

For the some areas identified in the table below no formal assessment in relation to control activity is made, but the general observation and advice given as part of this work feeds into my assessment of the overall control environment. Our observations and the acceptance of advice has, I feel, further enhanced the control environment.

The assessments reported from other inspection processes

In formulating our overall opinion on internal control, Internal Audit were aware of the work undertaken by other sources of assurance, their findings and their conclusions:

- External Audit (Grant Thornton) – various reviews
- Internal Audit at Forest of Dean (provided by SWAP) with regard to the overarching controls operating within the GO Shared Services Accounts Payable function

Other assessments considered

- The Certificates of Assurance (control self assessments by management)

- The other control assurance statements and supporting evidence which are considered in the completion of the Annual Governance Statement.

Robert Milford MA PGDip CMgr FCI CMAA MMS

Head of Audit Cotswolds (Head of Internal Audit)

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Table of internal audit work in 2014/15

Annex A

AUDIT ACTIVITY / REVIEW AREAS & ASSURANCE LEVELS				
The table below provides a summary of the internal audit service activities and assurances gained.				
Ref	Audit Activity	Assurance Opinion	Status	Type of Audit & Opinion
	Annual Governance Statement	AGS Generation	Final	N/A
	Performance Management		On-going	Assurance
	Risk Management	Satisfactory	Final	Assurance
	Governance Compliance – Members Allowances		On-going	Assurance
	Housing and Council Tax Benefits	Satisfactory	Final	Assurance
	Council Tax	Satisfactory	Final	Assurance
	National Non Domestic Rates	Satisfactory	Final	Assurance
	<i>GO Shared Services (GO Module Audits and Client Testing)</i>			
	- Budgetary Control and Capital Accounting	High	Final	Assurance
	- Treasury Management	High	Final	Assurance
	- Bank Reconciliations	Satisfactory	Final	Assurance
	- Main Accounting	High	Final	Assurance
	- Payroll	Satisfactory	Final	Assurance
	- Accounts Payable	Satisfactory	Final	Assurance
	- Accounts Receivable	High	Final	Assurance
	Other Risk Based Work 2014/15			
	Change Management - 2020 Vision	N/A	On-going	Consultancy
	Change Management – Public Protection	N/A	On-going	Consultancy
	Public Protection – Pollution Control (deferred from 2013/14)	High	Final	Assurance
	Client Side Stock Control – Ubico (Health Check)	N/A	Final	Assurance
	Cash Receipting (Health Check)	N/A	Final	Assurance
	Off Street Parking Enforcement Outsourced Service - Contract Management	High	Final	Assurance
	Social Media (Interim report)	Limited	Final	Assurance
	Data Protection & Control of Data	Satisfactory	Draft	Assurance
	Transparency Agenda	Satisfactory	Final	Assurance

	Asset Management (Land and Property)	High	Final	Assurance
	Contract Management SLM		On-going	Assurance
	Third Party Schemes and Grants	High	Final	Assurance
	Miscellaneous Advice	N/A	On-going	Consultancy
	National Fraud Initiative	Review	Final	Consultancy
	Follow-up	N/A	On-going	Assurance
	Counter Fraud Unit Business Case – phase 1	Project	Final	Consultancy

End.