

**AuditCotswolds**



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



**COTSWOLD  
DISTRICT COUNCIL**

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**INTERNAL AUDIT REPORT**

**Cotswold District Council**

**Annual Internal Audit Opinion 2015/2016**

## 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. The Audit Committee is responsible for obtaining assurance in respect of the control environment operating, part of which comes from the work and opinion of internal audit.

## Opinion on the overall adequacy and effectiveness of the control environment

This Annual Report gives the opinion on behalf of Head of Audit Cotswolds, 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. The 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 the 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 A**.

## The Council's Annual Governance Statement (AGS)

The opinion of the Head of Internal Audit (Operational) 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. A 'limited assurance' opinion was issued in these circumstances, 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. The process and outcome of this review is set out below.

### **Quality Assurance Arrangements and Performance**

There is a two stage review process to ensure the quality of the service.

The first stage has been briefly mentioned above and is in the form of the Audit Partnership Board. The Audit Partnership Board operates under a Terms of Reference that was adopted on the 1<sup>st</sup> 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:

- 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.
- 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 that we provide an effective service is obtained from the Audit Partnership Board and that Council management are proactive in audit planning and responsive to recommendations and advice. Performance against local performance indicators is reported to each client. Performance is also measured in comparison to other local authorities who are members of the CIPFA benchmarking group. We have an Audit Charter and work to an approved Annual Plan, 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.

### **Developing the Internal Audit planning process**

The Audit Plan for 2015/2016 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.

## **Resourcing**

The service is delivered by Audit Cotswolds. This partnership has enhanced the resilience and skills base of the service. The service through 2015/2016 was delivered by a team with the following professional institute backgrounds:

- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Chartered Institute of Internal Auditors (CIIA)
- 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, much of this gained at senior management level and drawn from both the public and private sectors.

During a time of exceptional change and restructuring at Audit Cotswolds, which caused uncertainty and low morale throughout the Audit team, Lucy Cater kept the team motivated with her confident and reassuring manner and ensured that the audits produced were of a high standard and on schedule. Unbeknown to Lucy, she was nominated, by the team, for the Chartered Institute of Internal Auditors inaugural Audit & Risk Awards - Inspirational Leader (Public Sector). The team particularly praised her attitude, ability to lead, support and unify, and her success at building team spirit. Although all contenders were strong nominations Lucy won the award. Some of the comments made in deciding Lucy as the winner were "Lucy's nomination stood out as she had 360 degree support across all areas – leadership, team members and role model. We were also touched that the team had nominated her without her knowledge, clearly indicating they felt she deserved the award. And with only eight years' experience we felt her achievements were particularly impressive." Lucy is currently the Head of Internal Audit (Operational) due to the Head of Audit Cotswolds involvement in the Counter Fraud Project.

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 within the structure the ability for the partnership to call on specialist consultants, if necessary. The service also has the ability to agree 'extraordinary work', whereby the client can request us to undertake specific work outside of the agreed annual audit plan. This is funded by agreement with the client.

### **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
- CIIA 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 final year of the 'MSc Audit Management and Consultancy' which embodies the Chartered Institute of Internal Auditors professional qualification. They also gained the CMIIA designation
- One member of the team is three years into a PhD on Shared Service Governance in Local Authorities

## **Looking forward**

During 2015/2016 we explored the possibility of an audit management software system. Demonstrations were given from various companies and sites visited to see the systems working. Tenders were invited and procurement has been made for the preferred system. The system is to be implemented during 2016/2017 which will save time, increase efficiency and maximize the power of collaborative working.

In September and October 2015 each of the four Councils' Cabinets and Full Councils (Cotswold District Council, West Oxfordshire District Council, Cheltenham Borough Council, Forest of Dean District Council) made the decision to proceed with the 2020 Vision Programme. The four authorities share a focus on efficiency and on achieving value for money for council tax payers. This concern for efficiency goes hand-in-hand with the partner authorities' shared vision of a district council having a wider responsibility for what is often characterised as 'place-shaping'. The authorities play a community leadership role - looking after the long-term environmental, social and economic needs of their localities, their citizens and businesses - and must act as champions of their communities on behalf of their citizens.

During 2016/2017 a review of the provision of internal audit services will be carried out to identify a single provider of internal audit services to the four 2020 authorities and the existing non-local authority Audit Cotswolds' clients. Audit Cotswolds will be submitting a bid for the work during the summer of 2016.

## **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.

**Lucy Cater MSc MAAT, Head of Internal Audit (Operational)**

**On behalf of:**

**Robert Milford MA PGDip CMgr FCMI CMIIA MMS, Head of Audit Cotswolds**

**AuditCotswolds**  


**Cotswold District Council**

Cotswold District Council

**Internal Audit Annual Opinion**  
**on the effectiveness of the system of Internal Control**  
**for the year ended 31 March 2016**

**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 Audit Cotswolds 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 2015/16 by the Audit 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 purpose of the Internal Audit Annual 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.

The opinion is set out as follows:

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

The **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 the 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 the 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 the opinion.

Consideration has been given to 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 2015/2016 is detailed in **Appendix B**.

The authority has continued to develop shared working arrangements with West Oxfordshire DC in terms of sharing a further Strategic Director post. In addition the Council has approved the establishment of a Joint Committee to be responsible for the delivery of shared services for ICT and Customer Services, Revenues, Benefits and Housing Operations, Environmental and Regulatory Services, Finance, HR and Internal Audit Services and Legal and Property Services. The Council's Shared Chief Executive has been confirmed as the new Managing Director of the Shared Services and the Head of Paid Service role has been undertaken by the Shared Director of Corporate Resources. Although this change has not had a significant impact upon the control environment during 2015/2016, this will be considered as part of the Internal Audit Opinion for 2016/2017. Internal audit have supported the 2020 Programme, which is initiating these transformational changes, both in terms of providing advice upon governance matters and providing programme assurance including gateway reviews of the processes undertaken to inform strategic decisions.

In 2015/2016 audit monitoring reports were presented to the Audit 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 Committee comment along with information relating to the service.

For some consultative pieces of audit work no formal assessment in relation to control activity is made. However, 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.

There were matters arising from audit reviews during the year that were deemed significant control weaknesses. On these occasions either a 'limited' or 'no' assurance opinion was issued. The risks associated with the control issues raised in the audit reports are being actively managed by the responsible Managers. Therefore, due to the positive response to the findings and recommendations in these audits, and the number of satisfactory and high assurance opinion audits being finalised during the year, the overall opinion for CDC is **Satisfactory Assurance**.

#### The assessments reported from other inspection processes

In formulating the 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 with regards to the GO Shared Services

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.

**Lucy Cater** MSc MAAT  
**Head of Internal Audit (Operational)**

On behalf of:

**Robert Milford** MA PGDip CMgr FCMI CMIIA MMS  
**Head of Audit Cotswolds**

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