



COTSWOLD
DISTRICT COUNCIL

INTERNAL AUDIT REPORT
Cotswold District Council

Annual Internal Audit Opinion 2016/2017

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 of the Acting 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 Acting Head of Audit Cotswolds 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 1**. There were matters arising from the work during the year that are 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 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:

- 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 2016/17 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 2016/17 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)
- Association of Accounting Technicians (AAT)

During the year two of our Senior Auditors left following successful recruitment in the Civil Service, we started the recruitment process to ensure the service was fully resourced so we could continue to meet our obligations. Previous experience in recruiting highlighted that it was more beneficial to our Internal Audit service to recruit at Assistant Internal Auditor level and 'grow our own' auditors. This was proved in 2015/16 when we successfully recruited two Assistant Internal Auditors, with excellent transferrable skills from different fields (engineering and leisure), who have now progressed to Internal Auditors and are conducting audits to a very high standard, and they are currently completing their first year of a Masters degree in Audit Management and Consultancy. We followed the same route in 2016/17 and again, successfully recruited two Assistant Internal Auditors who have started to conduct audits on their own and have successfully completed their probations. They will start studying towards a professional qualification in September 2017.

The Head of Audit Cotswolds was absent during 2016/17 and Lucy Cater, Operational Head of Internal Audit, acted up into this role for the year. Duties included ensuring resources were sufficient to complete the audit plans, monitoring of audit plans, reporting to Audit Committees and audit planning for 2017/18.

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
- Two members of the team commenced studying for the MSc in Audit Management and Consultancy
- Attendance at the CIPFA annual audit conference

Looking forward

During 2016/17 a review of the provision of internal audit services was carried out to identify a single provider of internal audit services to the three 2020 partner authorities and Cheltenham Borough Council and the existing non-local authority Audit Cotswolds' clients. The South West Audit Partnership (SWAP) was successful with their submission and Audit Cotswolds' staff TUPE Transferred with effect 1st April 2017. The audit team, in the main, will remain the same as will the working locations. Significant local knowledge has been lost, due to the redundancy of a long serving auditor, but we have access to other Senior Auditors within SWAP to assist with the completion of the audit plan. SWAP use audit management software, MKInsight, which will replace the manual systems, word, excel, etc. that Audit Cotswolds were using and will make our processes more efficient.

The Councils are progressing with the 2020 Vision Programme, and have created three limited companies, Publica Group Ltd, Publica Group (Support) Ltd and Publica Group (Services) Ltd that will undertake the

functions on behalf of the Councils. Internal Audit will continue to support the programme going forwards into 2017/18 including reviews of the governance of the companies and offering quality assurance to various projects within the programme of change.

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, CMIIA, MAAT

Acting Head of Audit Cotswolds (2016/17)

Assistant Director (South West Audit Partnership) (2017/18)

For

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 2017

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 Head of Paid Service 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 2016/17 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 Head of Paid Service 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 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 2016/17 is detailed in **Appendix B**.

During 2016/17 the Council made changes to the Corporate Team Structure to reflect the new 2020 Joint Committee governance arrangements. The Council's former Shared Chief Executive position has been disestablished and the post holder has been employed as the Managing Director of the 2020 Shared Service Company. The role of Head of Paid Service has been undertaken by the Shared Director of Corporate Resources, this change has not had a significant impact upon the control environment during 2016/17. 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 2016/17 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 'poor' or 'limited' 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
- ICT Audit and Compliance Manager

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, CMIIA, MAAT

Acting Head of Audit Cotswolds (2016/17)

Assistant Director, South West Audit Partnership (2017/18)

**For
Cotswold District Council**