

# Cotswold District Council

Internal Audit Annual Report and Opinion 2019/20

# Contents

## The contacts at SWAP in connection with this report are:

David Hill  
Chief Executive  
Tel: 01935 848540  
[david.hill@swapaudit.co.uk](mailto:david.hill@swapaudit.co.uk)

Lucy Cater  
Assistant Director  
Tel: 07720 312470  
[Lucy.Cater@swapaudit.co.uk](mailto:Lucy.Cater@swapaudit.co.uk)



### Summary:

Purpose & Scope	Page 1-2
Annual Opinion	Page 3-5



### Internal Audit Annual Opinion 2019/20:

Internal Audit Work Programme	Page 6
Significant Corporate Issues	Page 7
Summary of Audit Opinion 2019/20	Page 8
Priority Actions	Page 9



### Plan Performance:

Added Value	Page 10-11
SWAP Performance	Page 12-13



### Appendices:

Appendix A – Audit Definition	Page 14
Appendix B – Internal Audit Work Plan	Page 15-18

## Summary

**The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.**

### Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
  - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
  - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
  - the effectiveness of risk management processes.
- disclose any qualifications to that opinion, together with the reasons for the qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- draw attention to any issues the Head of Internal Audit judges particularly relevant;
- compare the work undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria;
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

# Summary

## Three Lines of Defence

To ensure the effectiveness of an organisation’s risk management framework, the Audit Committee and Senior Management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The ‘Three Lines of Defence’ model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- The first line of defence – functions that own and manage risk.
- The second line of defence – functions that oversee or specialise in risk management and compliance.
- The third line of defence – functions that provide independent assurance.

## Scope

The Internal Audit service for Cotswold District Council is provided by SWAP Internal Audit Services Limited (SWAP). The team’s work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the organisation’s control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and the Audit Committee. This report summarises the activity of the Internal Audit Team for the 2019/20 year against the Internal Audit Plan (approved by the Audit Committee, April 2019).

The position of Internal Audit within an organisation’s governance framework is best summarised in the three lines of defence model shown below.



Chartered Institute of Internal Auditors, October 2019

## Internal Audit Annual Opinion 2019/20

The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.

### Annual Opinion

I have considered the balance of 2019/20 audit work, the assurance levels provided, the profile of each audit and outcomes, together with the response from Senior Management and am able to offer '**Reasonable Assurance**' in respect of the areas reviewed during the year. Generally, risks are well managed, but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives.

This opinion is however qualified, in light of the current coronavirus pandemic and the impact of this on Cotswold District Council. The opinion given above is based on internal audit work undertaken, and completed, prior to emergency measures being implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short-term measures or the overall impact on the framework of governance, risk management and control.

Internal Audit's work has been guided by the Annual Audit Plan and emerging risks identified by Senior Management; therefore, we have not reviewed all risks and assurances relating to Cotswold District Council and Publica and cannot provide absolute assurance on the internal control environment. Senior Management and Members are ultimately responsible for ensuring an effective system of internal control.

The Annual Opinion is made based on the following sources of information:

- Completed audits (during 2019/20) which evaluate risk exposures relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regulations.
- Observations from advisory / consultancy support.
- Follow-Up of previous audit activity, including agreed actions against recommendations.
- Significant / material risk where management has not accepted the need for mitigating action.

Opinions are a balanced reflection, not a snapshot in time. Information to support this assessment is obtained from multiple engagements and sources (including advice / consultancy work and the assurance mapping

### Audit Opinion Continued

records the team maintain). The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Over the year, the Audit Team have found that Senior Management of Cotswold District Council and Publica to be generally supportive of Internal Audit findings and responsive to recommendations made. In addition, there is a good relationship with management whereby they feel they can approach the Audit Team openly in areas where they perceive potential problems. There are a number of outstanding priority 1 and 2 recommendations, which we will continue to monitor. These recommendations are discussed at Corporate Governance Group and have been taken into account when formalising this opinion.

We have completed 28 reviews for Cotswold District Council, including assurances over Publica's control framework. The completed reviews consist of assurance pieces of work, follow-ups, advice and consultancy and non-opinions.

The majority of audits from the 2019/20 plan have been completed to final or draft report stage. The Covid-19 pandemic has inevitably caused some delay in progress due to availability of Officers dealing with service delivery priorities.

Where audits were in progress, or draft reports have been issued, we have not actively pursued these in the early phase of Covid-19 lockdown, however we are now working to finalise outstanding audits. These reports and assurances will be included in the 2020/21 Annual Opinion.

In agreement with Management, and previously reported to this meeting some reviews were exchanged, removed or deferred from the approved plan, as the need to respond to new and emerging risks was identified. Any new, or unplanned, audit work has been included in the annual plan and can be identified with an \*.

All recommendations made are followed up by the Audit Team. The team have not raised any additional concerns over the delay / non-implementation of recommendations.

Determining whether risk management processes are effective is a judgement resulting from the internal auditor's assessment that:

- Organisational objectives support and align with the organisation's priorities.

- Significant risks are identified and assessed.
- Appropriate risk responses are selected that align risks with the organisation's risk appetite.
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management, and members to carry out their responsibilities.

It is also worth noting the 'Non-Opinion' audits during 2019/20. Given the level of change Internal Audit has a role to play in being the 'Trusted Advisor'. Although no opinion is offered with this work, details of the work and findings are shared with Senior Management and the Committee and an action plan to address areas for improvement is agreed.

### 2020/21

We recognise the changing risk environment that Covid-19 has and will bring to Cotswold District Council. During these unprecedented times, organisations are having to take a wide range of decisions quickly and effectively. Naturally services & processes have needed to adapt, staff reallocated, and wide-spread remote working leading to changes in communication and oversight. These changes in working practices will also present financial challenges. Due to this the 2020/21 audit plan will be under constant review and work prioritised on a quarterly basis and therefore there could be more frequent changes to the audit plan. Any changes will be clearly communicated to the Audit Committee with an explanation for the change.

## Internal Audit Annual Opinion 2019/20

### Our audit activity is split between:

- Governance Audits
- Key Financial Control Audits
- ICT Audits
- Operational Audits
- Follow-Up Audits
- Advice and Consultancy

### Internal Audit Work Programme

The schedule, included in the report (pages 15-18), contains a list of all audits agreed for inclusion in the Annual Audit Plan 2019/20 and the final outturn for the year. In total, 48 pieces of work were commissioned. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

The 48 reviews in the 2019/20 audit plan are broken down as follows:

Type of audit	2019/20 plan
• Governance Audits	4
• Key Financial Control Audits	12
• ICT Audits	5
• Operational Audits	14
• Follow-Up Audits	5
• Advice and Consultancy	6
• Grant Certification	2
• TOTAL	48



## Internal Audit Annual Opinion 2019/20

### Significant Corporate Issues

**Identified Significant Issues should be brought to the attention of Members.**

### Significant Corporate Issues

The following are the significant issues / areas identified during the course of our audit programme of work for 2019/20. Follow-Up audits have been included in the 2020/21 audit plan to ensure agreed recommendations have / are being actioned.

The Procurement review focussed on the processes undertaken on behalf of the Publica partner Councils. A number of weaknesses were identified which include:

- Incomplete Contract Registers and not publicly available
- Monitoring of expected contract spend to actual contract spend is not widely undertaken.
- Waivers not being logged
- Central record of waivers was not maintained
- Training for all staff

We have completed a follow-up review for this audit and can confirm that some progress has been made to improve controls. However, our report has not been finalised with Publica.

# Internal Audit Annual Opinion 2019/20

## SWAP Performance - Summary of Audit Opinions

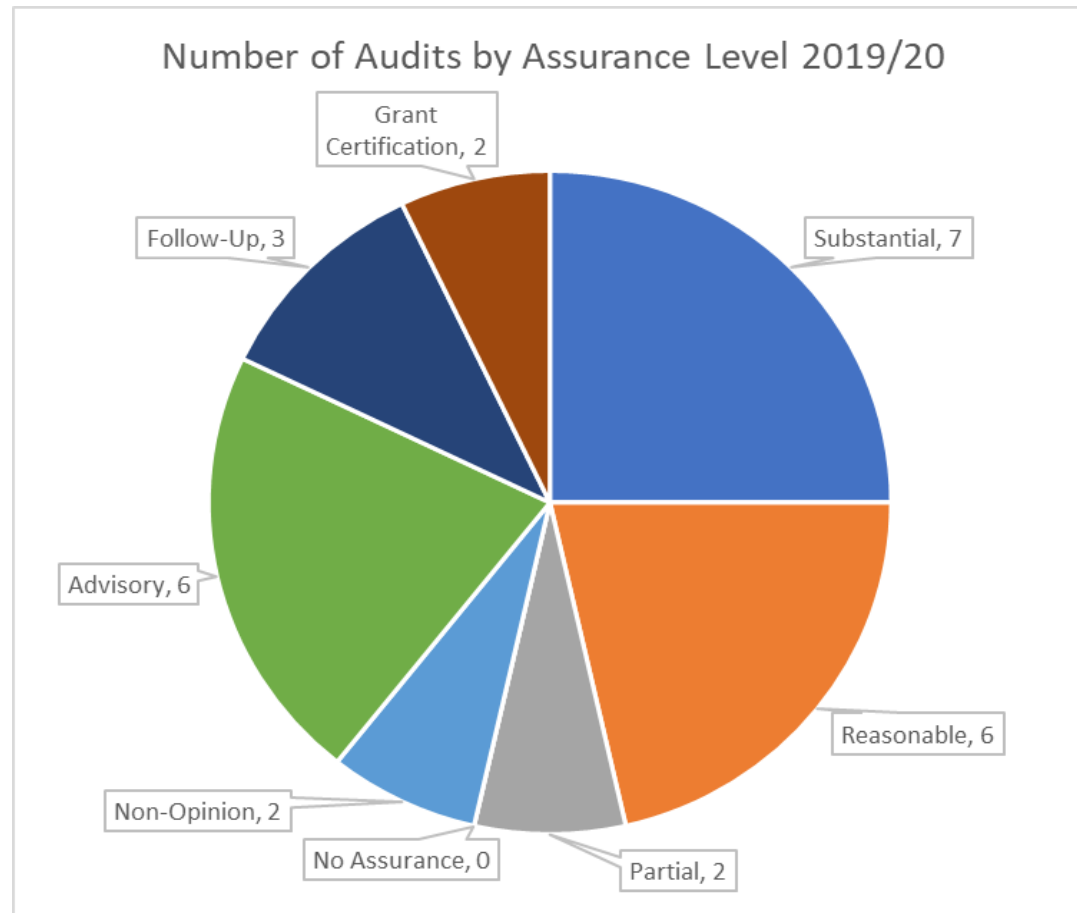
At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- No Assurance

We also undertake ‘non-opinion’ work on a consultancy basis where we have been asked to look at a specific area of potential concern.

## Summary of Audit Opinion

The following chart is a summary of all the reviews finalised / completed during 2019/20.



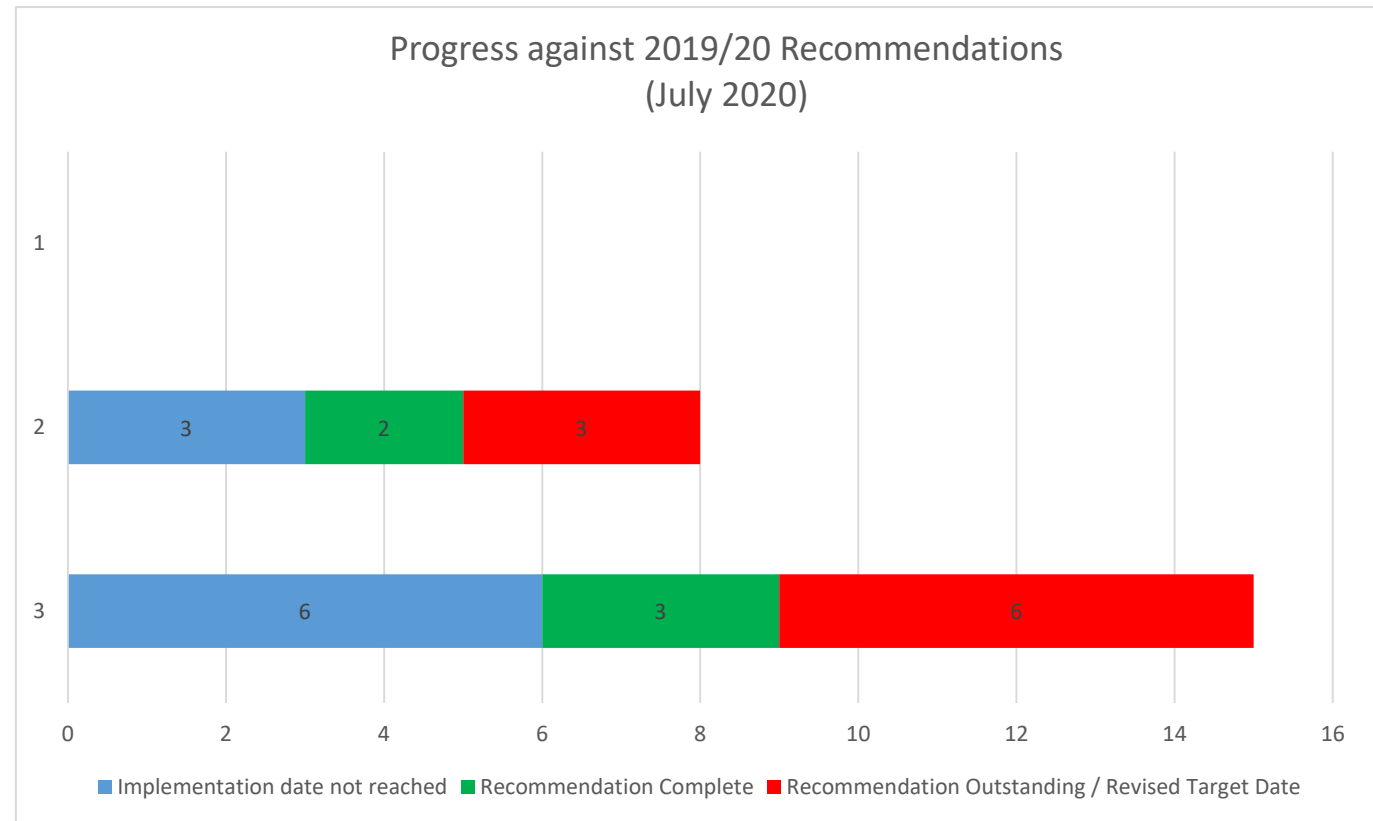
# Internal Audit Annual Opinion 2019/20

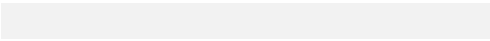
## SWAP Performance - Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 1 being major concern requiring immediate corrective action and 3 being minor or administrative concerns

## Priority Actions

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. Therefore, recommendations are assessed as to how important they are to the scope of the area audited.





### Added Value

**Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.**

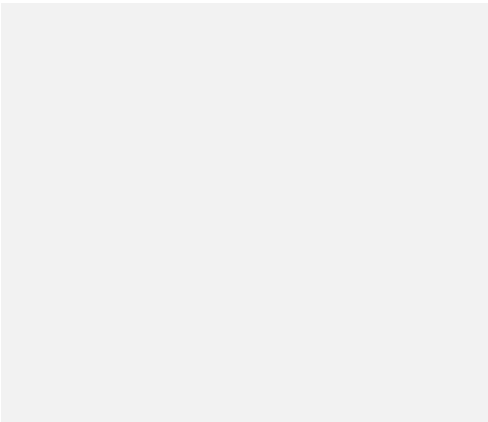


### Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP, we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is; “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

In addition to our audit plan, where requested by client officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where Cotswold District Council has requested or participated in enabling us to produce benchmarking reports across the partnership:

- Fraud Bulletins – We send out regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- Partners Newsletters – We produce quarterly partner newsletters that provides information on topical areas of interest for public sector bodies. We have increased the frequency of our newsflash to weekly during Covid-19 to provide relevant information.
- An Internal Audit View – These are quarterly newsletters where SWAP and other Local Authority Audit Partnerships convey key audit matters that Local Authorities should be aware.
- Responsiveness - we adapt our audit plans to address emerging risks and areas requiring assurance to management.
- Benchmarking and best practice – we share best practice from our partners wherever possible and undertake benchmarking exercises in a number of audits.
- Data Analytics – We are increasing the use of data analytics across all audits to provide a greater level of assurance and insight to trends and themes.
- Procurement threshold – Provided comparison on the limits set for when quotations and tenders need to be completed across the SWAP partners.
- Supplier Resilience – compared the approach to managing the risk posed by supplier failure.
- Lone Working Arrangements – Compared the approach to managing lone working arrangements and



- identifying best practice.
- Members Training Events.
  - Support to our partners and clients during the Coronavirus pandemic.

## Plan Performance 2019/20

Internal Audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).



### SWAP Performance

SWAP's performance is subject to regular monitoring and review by the (SWAP) Board and Member Meetings. The respective outturn performance results for Cotswold District Council for the 2019/20 year are as follows:

Performance Target	Average Performance
<b><u>Audit Plan – Percentage Progress*</u></b>	
Final Report / Complete / Position Statements	67%
Draft Report (awaiting management response)	16%
In Progress	10%
Not Started	7%
<b><u>Quality of Audit Work</u></b>	
**Customer Satisfaction Questionnaire	100%

\*Note some work has taken longer to conclude due to Covid-19 lockdown and changes in priorities and officer availability.

\*\*At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated office. The aim of the questionnaires is to gauge satisfaction against timeliness, quality, professionalism and value added.

SWAP's work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Under these standards we are required to be independently externally assessed at least every five years to confirm conformance to the required standards. SWAP was recently externally assessed in February 2020 and confirmed that we 'Generally Conform' to the standards.

Attribute Standard 1300 of the IPPF requires heads of internal audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues that the programme must include both internal and external assessments for improvement. Following our external assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to achieve, as aligned to SWAP's Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our agreed actions.

And finally, just like any other company and Cotswold District Council itself, our accounts are subject to both Internal and External Audit Review. The auditor confirmed that the audit did not find any areas of concern and the auditor was confident that the processes in place are adequate to support SWAP's annual report and financial statements.



At the conclusion of an audit assignment a ‘Control Assurance’ is awarded. A summary of the assurance levels is as follows:

Assurance Definitions	
<b>None</b>	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Reasonable</b>	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Substantial</b>	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

**Non-Opinion/Advice** – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendations are assigned a priority rating based on the following framework:

Categorisation of Recommendations	
In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
<b>Priority 1</b>	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
<b>Priority 2</b>	Important findings that need to be resolved by management.
<b>Priority 3</b>	Finding that requires attention.

Audit Type	Audit Area	Status	Opinion	No of Recs	1 = Major, 2 = Moderate, 3 = Minor		
					Recommendation		
					1	2	3
<b>Finalised / Completed Reviews &amp; Position Statements</b>							
ICT	Data Protection Act (GDPR)	Final Report	Substantial	1			1
Operational	Procurement and Contract Management	Final Report	Partial	2		1	1
Key Financial Control	Systems Admin	Final Report	Reasonable	7		2	5
Key Financial Control	Human Resources	Final Report	Reasonable	2		1	1
Key Financial Control	Procurement	Final Report	Partial	10		7	3
Governance	Risk Management	Final Report	Substantial	-			
ICT	Cyber Security	Complete	Advisory	-			
Governance	Annual Governance Statement	Final Report	Substantial	3			3
Operational	Affordable Housing	Final Report	Substantial	1			1
Key Financial Control	Council Tax and NNDR	Final Report	Reasonable	2		1	1
Key Financial Controls	Housing Benefit / Council Tax Support	Final Report	Substantial	1			1
Key Financial Controls	Accounts Payable	Final Report	Substantial	-			

Audit Type	Audit Area	Status	Opinion	No of Recs	1 = Major, 2 = Moderate, 3 = Minor		
					Recommendation		
					1	2	3
Key Financial Controls	Treasury Management and Bank Reconciliations	Final Report	Substantial	3			3
Key Financial Controls	Payroll	Final Report	Reasonable	1		1	
ICT	Systems Admin	Final Report	Follow-Up	4		1	3
Key Control	Human Resources (Safer Recruitment)	Final Report	Reasonable	3		2	1
Key Control	Health and Safety (Fire Risk Assessments)	Final Report	Reasonable	2		1	1
Grant Certification Work	Disabled Facilities Grants	Complete	Not Applicable	-			
Grant Certification Work	Disabled Facilities Grants (Additional Funding)	Complete	Not Applicable	-			
Follow-Up	Follow-Up of Recommendations made in Substantial and Reasonable Audits	Complete	Follow-Up	-			
Follow-Up	Follow-Up of Control Weaknesses identified by the Counter Fraud Unit	Complete	Follow-Up	-			
Advice and Consultancy	Benefits Realisation (Publica)	Position Statement	Non-Opinion	-			
Advice and Consultancy	Cemetery Services Fees	Complete	Advisory	-			
Advice and Consultancy	Ubico – Waste and Recycling Collection Contract	Position Statement	Non-Opinion	-			
Advice and Consultancy	Support to the Publica Transformation Programme	Complete	Not Applicable				

Audit Type	Audit Area	Status	Opinion	No of Recs	1 = Major, 2 = Moderate, 3 = Minor		
					Recommendation		
					1	2	3
Operational	Support to the Council in respect of Covid-19 – Leisure Centre Funding	Complete	Not Applicable	-			

Audit Type	Audit Area	Status	Comments
<b>Draft Reports</b>			
Key Financial Controls	Accounts Receivable	Draft Report	
Follow-Up	S106 Agreements and Funds	Draft Report	
Follow-Up	Procurement Audit	Draft Report	
Follow-Up	Procurement and Contract Management Audit	Draft Report	
Operational	Asset Management	Draft Report	
Operational	Commercial Property / Investment Property		
Operational	Use of Volunteers	Draft Report	

Audit Type	Audit Area	Status	Comments
<b>Work Incomplete / Not Commenced as at 30<sup>th</sup> June 2020</b>			
Operational	Grants	In Progress	
Key Financial Control	Main Accounting	Not Commenced	Annual review therefore scope will be included in 2020/21 audit
ICT	Business Continuity	In Progress	
ICT	Incident Management	In Progress	
Operational	Civil Contingencies	In Progress	Work commenced but put on hold due to flooding at FoDDC and COVID-19
Governance	Risk Management	Not Commenced	Planned as a Quarter 4 Audit, not commenced due to COVID-19. Scope will be included in 2020/21 audit.
Governance	Performance Management	Not Commenced	Planned as a Quarter 4 Audit, not commenced due to COVID-19. Scope will be included in 2020/21 audit.
<b>Audits Deferred / Removed from the Plan during the year</b>			
Operational	Business Rates Reset		Audit removed due to changes in government legislation
Operational	Internal Enforcement Agency		Deferred due to change in service provision
Operational	Corporate Culture		Audits deferred to 2021/22 by request of Head of HR
Advice and Consultancy	Workforce Strategy		
Operational	Cash Handling		Audit deferred to 2021/22 due to other unforeseen work

Audit Type	Audit Area	Status	Comments
	Management and Monitoring of Contracts		Audit deferred to 2020/21 due to delays in finalising procurement audits
	Publica Transformation Benefits Realisation		Audit deferred to 2020/21 by request of client and will allow 2 full years to be reviewed
	Waste and Recycling Assets		Removed from the plan to utilise the days for the Ubico – Waste and recycling collection audit