



Cotswold District Council

Report of Internal Audit Activity

Plan Progress 2017/2018

∞ Internal Audit Charter 2017

August 2017



Agenda Item (16)
Appendix 1



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Internal Audit Plan Progress 2017/2018

Our audit activity is split between:



Role of Internal Audit

- Governance Audit
- Operational Audit
- Key Control Audit
- IT Audit
- Other Reviews

The Internal Audit service for Cotswold District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter. A copy of the latest document is attached at Appendix D for approval by the Audit Committee at this meeting.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Governance Audits
- Operational Audits
- Key Financial System Controls
- IT Audits
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Council's Management Team. The 2017/18 Audit Plan was reported to, and approved by, Audit Committee at its meeting in April 2017.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Internal Audit Plan Progress 2017/2018

Outturn to Date:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action



Internal Audit Work

The schedule provided at **Appendix A** contains a list of all audits as agreed in the Annual Audit Plan 2017/18. 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.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in **Appendix B** of this document.

As is shown in **Appendix A** good progress is being made on the 2017/18 audit plan.

As agreed with this Committee where a review has a status of ‘Final’ we will provide a summary of the work and further details to inform Members of any key issues, if any, identified.

We have finalised two 2017/18 audit reviews, one non-opinion piece of work and completed the Annual Governance Statement for 2016/17 since the last meeting of this Committee. I am pleased to report none of the audit reviews have returned an adverse audit opinion of either ‘No Assurance’ or ‘Partial’ Assurance. Further to this, none of the reviews identified any significant risks that I need to bring to your attention. Further information on the finalised reviews can be found within **Appendix C**.

We keep our audit plans under regular review to ensure that we audit the right things at the right time.



Approved Changes to the Audit Plan

The audit plan for 2017/18 is detailed in **Appendix A**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to Cotswold District Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Audit Client Officer.

There has been one addition to the current audit plan, IA were requested to undertake a review into the administration of Pool Cars, the days used to undertake this review were taken from Contingency.

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
FINAL											
Governance, Fraud & Corruption	Annual Governance Statement (for year 2016/17)	Q1	Complete	Satisfactory							
Operational	Equalities and Diversity	Q1	Final	Reasonable	3		1	2			See Appendix C
Operational	Public Health Burials	Q1	Final	Substantial	4	1		3			See Appendix C
Non-Opinion	Greenhouse Gas Emissions	Q2	Complete	Non-Opinion							
DRAFT											
Operational	Grant Payments to Third Parties	Q1	Draft								
Operational	Safeguarding	Q1	Draft								
Advice	Pool Cars (NEW)	Q2	Draft								Days taken from Contingency
IN PROGRESS											
Governance, Fraud & Corruption	Risk Management	Q2	In Progress								
Operational	Licensing	Q2	In Progress								
Key Control	Treasury Management and Bank Reconciliations	Q2	In Progress								

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Key Control	Accounts Payable (Creditors)	Q3	Testing Started								
Key Control	Payroll	Q3	Testing Started								
ICT	EU General Data Protection Regulations	Q2	In Progress								
Follow Up	Business Continuity Management Follow-Up	Q1	In Progress								
Follow Up	Council Security Follow-Up	Q2	In Progress								
NOT STARTED											
Operational	Subsidy Claims	Q3									
Key Control	Main Accounting, Budgetary Control and Capital Accounting	Q3									
Key Control	Accounts Receivable (Debtors)	Q3									
Key Control	Business World System Administration	Q3									
Key Control	Human Resources	Q3									
Key Control	Other GOSS Area (Procurement / Insurance / H&S)	Q3									

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Key Control	Council Tax Benefit	Q3									
Key Control	Council Tax	Q3									
Key Control	NNDR	Q3									
ICT	Public Services Network Submission	Q3									
Governance, Fraud & Corruption	Audit Committee Effectiveness (Annual)	Q4									
Governance, Fraud & Corruption	Performance Management	Q4									
Operational	Private Water Supplies	Q4									
Operational	Food Safety	Q4									
Operational	Capital Spend	Q4									
Operational	Flexible use of Capital Receipts	Q4									
Operational	Efficiency Measure Rankings	Q4									
Key Control	IR35	Q4									
Key Control	Serious and Organised Crime Checklist	Q4									
Key Control	Serious and Organised Crime Audit	Q4									

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1=Minor ← 5=Major					Comments
						Recommendation					
						1	2	3	4	5	
Key Control	Fighting Fraud and Corruption	Q4									
ICT	Protection from Malicious Code	TBC									
ICT	Device Strategy	TBC									
ICT	ICT	TBC									
ICT	ICT Policies	TBC									
ADVICE AND CONSULTANCY											
Non Opinion	2020 Vision Programme	Ongoing									
Advice	Change Programmes	Ongoing									
Advice	SLM Contract	Ongoing									
OTHER INTERNAL AUDIT INVOLVEMENT											
Advice	Management	Ongoing									
Follow Up	Income Streams Follow-Up	TBA									
Follow Up	2016/17 Follow Up Reviews	Ongoing									
	Contingency Days	Ongoing									5 days remaining
DROPPED											

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



Audit Framework Definitions

Control Assurance Definitions

- Substantial
- Reasonable
- Partial
- No Assurance

<p>Substantial ▲★★★★</p>	<p>We are able to offer substantial assurance as 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.</p>
<p>Reasonable ▲★★★★</p>	<p>We are able to offer reasonable assurance as 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.</p>
<p>Partial ▲★★★★</p>	<p>We are able to offer Partial assurance 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.</p>
<p>No Assurance ▲★★★★</p>	<p>We are not able to offer any assurance. 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.</p>

Non-Opinion – 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.

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Recommendations are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

Categorisation of Recommendations

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. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management and the Audit Committee.

Summary of Audit Assignments Finalised since the last Audit Committee

Audit Assignments finalised since the last Audit Committee:

➔ **Summary of Audit Findings and High Priority Service Findings**

The following information provides a brief summary of each audit review finalised since the last Committee update.

Equalities and Diversity – Reasonable Assurance

As part of the 2017-18 internal audit plan, a review was carried out to assess the Council's arrangements to ensure compliance with all requirements of Section 149 of the Equality Act 2010 (Public Sector Equality Duty).

The Equality Act 2010 replaced previous anti-discrimination laws with a single act, with the intention of simplifying the law, removing inconsistencies and make it easier to understand and comply with. The Public Sector Equality Duty (PSED) came into force 5th April 2011, and is made up of a General Duty supported by Specific Duties.

The General Duty applies to all public authorities and other organisations carrying out public functions, although responsibility remains with the public authority. It supports good decision making by ensuring public bodies consider how different people will be affected by their activities; helping them to deliver policies and services which are efficient and effective, accessible to all and meet different people's needs

The General Duty requires public authorities, in the exercise of their functions, to have due regard to the need to:

1. Eliminate unlawful discrimination, harassment and victimisation and any other conduct prohibited by the act
2. Advance equality or opportunity between people who share a protected characteristic and people who do not share it

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3. Foster good relations between people who share a protected characteristic and people who do not share it

The Equality Duty covers the following protected characteristics:

- Age
- Disability
- Gender reassignment
- Pregnancy and maternity
- Marriage and civil partnership (but only in respect of the requirement to have due regard to the need to eliminate discrimination)
- Race – this includes ethnic or national origins, colour or nationality
- Religion or belief – this includes lack of belief
- Sex
- Sexual orientation

The Specific Duties apply to local authorities, but not to organisations carrying out functions on behalf of local authorities (full list of authorities subject to the Specific Duties is available at <http://www.legislation.gov.uk/uksi/2011/2260/made>). The purpose of the Specific Duties is to help authorities improve their performance on the General Equality Duty, by improving their focus and transparency.

According to the Specific Duties, authorities are required to:

- Publish information to show their compliance with the Equality Duty at least annually. This information must include information relating to people who share a protected characteristic who are:
 - Its employees (Public authorities with less than 150 employees are exempt)
 - People affected by its policies and practices
- Set and publish equality objectives at least every four years. The objectives must be specific and measurable.

There is no prescribed format for publishing information, but it must be accessible to the public; it is down to the authority to consider the information that demonstrates due regard towards equality issues.

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As the Council is moving towards having its services provided by a Teckel trading company (Publica), which the majority of its employees will TUPE transfer into, it will be exempt from publishing protected characteristic information on its workforce, but it will still be required to provide all other information.

Our review identified three key controls that, if managed appropriately, would mitigate the risks mentioned in the Corporate Risk Assessment section. These controls are:

- The Council publishes information, at least annually, to demonstrate the three aims of the Duty have been considered as part of decision-making processes.
- The Council sets and publishes Equality objectives, at least every four years.
- Service users can access published data in a variety of formats.

Public Health Burials – Substantial Assurance

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for Public Health funerals.

The inclusion of this audit review in the 2017/18 Internal Audit Plan was requested by the ERS Group Manager.

The ERS Group Manager raised concerns relating to past performance of the service, and whether it was now in a position to act more effectively. The ERS Group Manager and the Business Support Service Leader stated that no files existed in relation to previous cases which linked to the ERS Group Manager's concerns about the effectiveness of the service, and how competently the service had historically been delivered. It being the case that no files were in existence, audit testing would not be practical. Instead it was agreed with the ERS Group Manager, and the internal audit Assistant Director, that a forward-looking audit review would take place, examining how the service planned to operate in the future and evidence to support such plans. The

key pieces of evidential documentation were:

- Public Health Act Funerals Procedures
- Public Health Act Funerals Policy
- Files kept on the council network (U drive) to ensure accurate recording

Our review was conducted to ensure that:

- The Council fulfils statutory responsibilities
- All expenditure is unavoidable
- All costs are recovered where possible
- The Council disposes of the deceased person in an appropriate manner

We made three Priority 3 (Medium rank) recommendations; these relate to:

- Obtaining quotations for undertaker services
- Amending the new Procedures document to include:
 - Recording all costs incurred, including officers' time
 - how officers should ascertain the value of items belonging to the deceased
 - how officers may recover costs via a Will

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Internal Audit Charter

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Cotswold District Council and to outline the scope of internal audit work.

Approval

This Charter is to be approved by the Audit Committee on 29th August 2017 and is reviewed each year to confirm it remains accurate and up to date.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership Limited (SWAP). This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

33 The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Member's Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Member's Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by Chief Financial Officer in consultation with the Chief Executive for SWAP.

Role of Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management and of Internal Audit

Management

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Head of Paid Service and the Audit Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

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

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. Members of SWAP who have transferred in to the department from other areas of the Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Member's Meeting. The Chief Executive of SWAP and the Assistant Director also report to the Section 151 Officer, and reports to the Audit Committee as set out below.

Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Cotswold District Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether Cotswold District Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- 35 • appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- reviewing the operations of the council in support of the council's anti-fraud and corruption policy.
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditors independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the Audit Committee, for information, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the council expect to face in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed with the S 151 Officer on a quarterly basis to ensure it remains current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. SWAP will report at least two times a year to the Audit Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the relevant Strategic Director and to other relevant line management.

The Chief Executive of SWAP will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and the Assistant Director have the unreserved right to report directly to the Leader of the Council, The Chairman of the Audit Committee, the Head of Paid Service or the External Audit Manager.

Revised August 2017