

Cotswold District Council

Report of Internal Audit Activity

Plan Progress 2017/2018

November 2017

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Appendix 'A'

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The contacts at SWAP in connection with this report are:

Gerry Cox
Chief Executive

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Ian Baker
Director of Quality

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➔ Appendices:

Lucy Cater
Assistant Director

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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.

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:



Internal Audit Work

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

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 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 three 2017/18 audit reviews and one advisory piece of work since the last meeting of this Committee. We have issued one ‘Partial’ Assurance in respect of the review for Safeguarding as testing identified some significant risks to the Council. 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 have been no changes to the plan since the last report, but we have had to defer some of the testing of the control element of Payroll audit due to staff availability and the build of Business World for Publica, we have issued an interim report on the areas we have been able to test.

Transactional testing has been completed for Accounts Payable, but due to office moves at the Forest of Dean DC, the control element will not be reviewed until towards the end of November

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			
Operational	Public Health Burials	Q1	Final	Substantial	4	1		3			
Non-Opinion	Greenhouse Gas Emissions	Q2	Complete	Non-Opinion	-						
Operational	Grant Payments to Third Parties	Q1	Final	Reasonable	2			2			See Appendix C
Operational	Safeguarding	Q1	Draft	Partial	8	1	1	4	2		See Appendix C
Key Control	Treasury Management and Bank Reconciliations	Q2	Draft	Substantial	0						See Appendix C
Advice	Pool Cars (NEW)	Q2	Final	N/A	-						See Appendix C
DRAFT											
Follow Up	Business Continuity Management Follow-Up	Q1	Draft								Waiting Management Response
Follow Up	Council Security Follow-Up	Q2	Draft								Waiting Management Response

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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	Payroll	Q3	Draft (Interim)								Transactional Testing Complete. Interim report issued for control / processing areas. Testing will re-commence following transfer to Publica
IN PROGRESS											
Governance, Fraud & Corruption	Risk Management	Q2	In Progress								
Operational	Licensing	Q2	In Progress								
Key Control	Accounts Payable (Creditors)	Q3	In Progress								Transactional Testing Complete. Control / process review in progress
ICT	EU General Data Protection Regulations	Q2	In Progress								
Key Control	Council Tax Benefit	Q3	In Progress								
Key Control	Council Tax	Q3	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	NNDR	Q3	In Progress								
Key Control	Main Accounting, Budgetary Control and Capital Accounting	Q3	In Progress								
Key Control	Accounts Receivable (Debtors)	Q3	In Progress								
Key Control	Business World System Administration	Q3									
Key Control	Other GOSS Area (Procurement / Insurance / H&S)	Q3	In Progress								H & S Policy
Operational	Private Water Supplies	Q4	In Progress								
Operational	Food Safety	Q4	In Progress								
Key Control	Serious and Organised Crime Checklist	Q4	In Progress								
Key Control	Serious and Organised Crime Audit	Q4	In Progress								
Key Control	Fighting Fraud and Corruption	Q4	In Progress								

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
NOT STARTED											
Operational	Subsidy Claims	Q3									
Key Control	Human Resources	Q3									
ICT	Public Services Network Submission	Q3									
Governance, Fraud & Corruption	Audit Committee Effectiveness (Annual)	Q4									
Governance, Fraud & Corruption	Performance Management	Q4									
Operational	Capital Spend	Q4									
Operational	Flexible use of Capital Receipts	Q4									
Operational	Efficiency Measure Rankings	Q4									
Key Control	IR35	Q4									
ICT	Protection from Malicious Code	TBC									
ICT	Device Strategy	TBC									
ICT	ICT	TBC									
ICT	ICT Policies	TBC									

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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	
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									
DROPPED											

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

Substantial	▲ ★ ★ ★	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.
Reasonable	▲ ★ ★ ★	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.
Partial	▲ ★ ★ ★	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.
No Assurance	▲ ★ ★ ★	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.

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.

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.

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.

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Summary of Audit Assignments Finalised since the last Audit and General Purposes 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.

Grant Payments to Third Parties – Reasonable 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 Grant Payments made to Third Parties by Cotswold District Council.

The Council awards capital grants towards the refurbishment of community facilities such as village and community halls, children's play areas, etc via the Community Projects Fund. This Fund was introduced in 1997 to support one of the Council's priorities, to 'Champion issues which are important to local people'. Guidance and application criteria are published on the Council's website with contact details for further information and/or advice on individual applications.

In 2015/16 a total of £43,890 was paid out towards 8 projects and in 2016/17 £54,618 was paid towards 8 new projects. This review is a high-level review focussing on the robustness of controls in relation to the administration and reporting of these grant payments.

Well controlled areas identified include:

- Appropriate checks are in place which evidence that the funding criteria has been met
- Records are up to date and sufficient / appropriate evidence is maintained which supports decision making
- Payments are made in a timely manner

Our review identified areas for improvement and Management have agreed as follows:

- To review the criteria for awarding grants to ensure that awards continue to be in accordance with the Council's Strategic aims and priorities
- To review processes with a view to further improving operational efficiencies
- To determine roles and responsibilities relating to budgetary matters

Safeguarding – Partial Assurance

As part of Cotswold District Council's 2017/18 internal audit plan approved by Audit Committee, a review was carried out of the Council's arrangements to ensure it is meeting the statutory requirements in terms of safeguarding of children and vulnerable adults.

Among other legislation, the Children Act 1989 and 2004 and the Care Act 2014 charge organisations with responsibility for key safeguarding principles, encourages partnerships between different agencies and create accountability. At a more local level Safeguarding Boards co-ordinate and ensure the effectiveness of work to protect and promote the welfare of children, young people and vulnerable adults. The Local Safeguarding Boards are responsible for policy, procedure and guidance.

Cotswold District Council (CDC) is a member of both Gloucestershire Safeguarding Children Board (GSCB) and Gloucestershire Safeguarding Adults Board (GSAB), and the Lead Safeguarding Officer (LSO) and the Head of Leisure and Communities are actively involved in Board meetings. Along with the LSO and Head of Leisure & Communities, the Head of HR also has experience and knowledge of Safeguarding so is able to provide resilience in terms of Safeguarding matters or guidance needed by Council staff.

Well controlled areas identified include:

- Involvement and engagement with Local Safeguarding Boards
- High levels of compliance on Gloucestershire Safeguarding Children Board Section 11 Self-Assessment

- Compliance and monitoring arrangements, lead through the Leisure & Communities Service Plan

Our review identified areas for improvement and Management have agreed as follows:

- To embed the Safeguarding Policy into all contracted services, or to ensure that contractors have sufficient regard for Safeguarding which is equivalent to the requirements of the authority's Safeguarding Policy
- To include Safeguarding information on the Council's Intranet
- To raise awareness and understanding of all elements of Safeguarding by planning activities
- To ensure that sufficient details and level of information is held on the Referral Log
- To consider the introduction of a feedback loop process when making referrals to the County Council
- To undertake a full review of the approach to training for all employees and Members to ensure the requirements of the policy are met

As the Council moves towards the Publica Company model, there may be opportunity to explore collaborative working with other partner Councils to increase efficiency and resilience in the provision of Safeguarding requirements.

Treasury Management and Bank Reconciliation – Substantial Assurance

As part of the 2017/2018 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for Treasury Management (TM) and Bank Reconciliation across the Publica/GOSS clients, which includes Cotswold District Council.

CIPFA defines Treasury Management (TM) as "the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks." The importance of Treasury Management to an organisation is evident from the CIPFA definition, and as such is included in each year's internal audit plan for review.

Bank reconciliation is one of the primary key financial controls to detect fraud and error, and as such it is very important to provide assurance that this fundamental control is being undertaken correctly on a regular basis. Consequently, bank reconciliation is also included in each year's internal audit plan for review.

Although a substantial assurance opinion is offered for both systems, it should be noted that a retendering exercise is currently underway for new contracts for TM advisers for Cotswold DC and West Oxfordshire DC.

Well controlled areas include:

- Business Continuity Arrangements – Officers trained to cover absences.
- Negotiating investment - in accordance with the Investment strategy set for the financial year.
- Keeping up to date with the latest regulations – Recent attendance at CIPFA workshop.
- Carry out daily cash management – Use of Lloydlink and Logotech TM system
- Regular reconciliations – Timely and signed reconciliations completed

Our testing found that sound controls are operating in the areas we reviewed during this audit and therefore there are no recommendations to be made this year.

Pool Cars – Consultancy / Advice

A piece of consultancy work was completed, as requested by the S151 Officer at Cotswold DC (CDC), as a result of an investigation by the Counter Fraud Team. The investigation reviewed the pool vehicle arrangements at CDC and West Oxfordshire DC (WODC), as well as pool vehicles used by the Environmental Regulatory Service (ERS), some of which are kept at the Forest of Dean DC. The request from the S151 Officer was to recommend a policy and process for managing pool cars.

Control measures were found to be weak with inconsistent processes operating between different departments and at the different Councils. It was also found that there was no clear system to allow for departmental managers to cross-check mileage claims against Council vehicle use.

Recommendations were made by the CFU in relation to policy, vehicle keys, paperwork, employee records and management review were taken into consideration during this piece of work.

A policy was drafted, following research into other organisations' policies, and a process has been developed for consideration which if adopted will add control measures and a uniform process for all departments to follow.

The suggested policy and process charges Service Managers (or an individual appointed by the Service Manager) with responsibility to ensure the overall management of the pool vehicle scheme and require them to make checks on such things as mileage claims and usage of vehicle to identify and deter misuse or fraudulent activity.

