![SWAP Internal Audit Services logo — Helping Organisations to Succeed]

Cotswold District Council

Report of Internal Audit Activity

September 2022

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Unrestricted

Contents

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Internal Audit Definitions

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

- **No**
- **Limited**
- **Reasonable**
- **Substantial**

● **Audit Framework Definitions**

Control Assurance Definitions

No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

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.

Internal Audit Definitions

Recommendations are prioritised from 1 to 3 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.

Categorisation of Recommendations	
Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management
Priority 3	Finding that requires attention.

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

Audit Plan Progress

Audit Type	Audit Area	Status	Opinion	No of Rec	Priority 1	Priority 2	Priority 3	Comments
Operational	Procurement Cards	Final Report	Low Limited	6	2	4	-	See Appendix C
ICT	Vulnerability Management	Final Report	High Reasonable	1	-	1	-	See Appendix C
Operational	Business Grant Funding – Post Payment Assurance	Final Report	High Substantial	0	-	-	-	See Appendix C
Operational	Election Expenses – Treatment of VAT	Final Report	Medium Substantial	1	-	-	-	See Appendix C
Operational	S106 Agreements and Funds	Draft Report						
Operational	Publica Performance Information	In Progress						
Operational	Accounts Payable (Qtly review)	In Progress						
Follow-Up	Asset Management and Commercial Property	In Progress						
Operational	Climate Change (Strategic)	In Progress						
Operational	Business Continuity Management	In Progress						
Operational	Mechanism for Charging Council	Planned for Q3						
Key Financial Control	Treasury Management and Bank Reconciliation	Planned for Q3						
Support	Business Grant Funding – Post Payment Review	On-Going	N/A	-				Head of IA working with Head of Service, Counter Fraud and Enforcement Unit to conduct post payment review

Audit Plan Progress

| Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
Advisory	Support to the Agile Working Project	On-Going						
Advisory	Environmental Services Improvement Programme	On-Going						
Advisory	Procurement and Commissioning Group	On-Going						
Advisory	Health and Safety Working Group	On-Going						
Advisory	Publica Improvement Programme	On-Going						
Grant Certification	Test and Trace Payment Scheme	Complete	N/A					
Grant Certification	Contain Outbreak Management Fund	Complete	N/A					
Follow-Up	Follow-Up of Agreed Actions (not included in an audit above)	On Going						
Other Audit Involvement	Working with the Counter Fraud and Enforcement Unit	On Going						
Other Audit Involvement	Management of the IA Function and Client Support	On Going						
Other Audit Involvement	Contingency – Provision for New Work based on emerging risks							

The following are the Internal Audit reports, of each audit review finalised,
since the last Committee update

Procurement Cards – Final Report – August 2022

Audit Objective	To review the use of Procurement and Credit Cards to ensure purchases are made in accordance with agreed policy/procedure.

Assurance Opinion
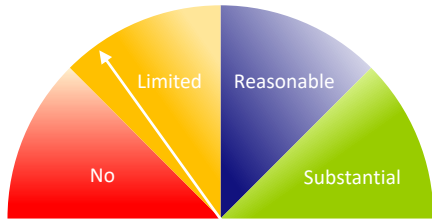
Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

Number of Agreed Actions

Priority	Number
Priority 1	2
Priority 2	4
Priority 3	-
Total	6

Risks Reviewed

The anticipated benefits of using procurement cards are not realised due to lack of guidance, resulting in card misuse, potential fraudulent transactions and ineffective processing and reconciliation of expenditure

Assessment

High

Key Findings

⚠️ Audit identified non-compliance with policy / procedure in respect of submission of receipts, payments to council approved suppliers (when a PO should be used), timeliness of processing of transactions into the ledger.
Security of cards was not as robust as we expected and at times in non-compliance with policy / procedure. Controls have been discussed and actions agreed.

Card administration is not as robust as we would expect.
Policy is dated 2015 and is need of a refresh.
Policy update to enforce to cardholders their responsibilities and consequences of non-compliance with the policy. Policy to be reviewed and updated at least every 3 years.
Procurement card data is not being published in accordance with the Government's Transparency Programme.

Audit Scope

Our review covered the following areas:
- Procurement card policies/guidance.
- Procurement/Business Card procedures.
- Only authorised officers with a valid business use are issued procurement cards.
- Purchases are in accordance with policy and include supporting documentation for payment. For emergency payments appropriate authorisation is in place.
- Transactions posted to the ledger are accurate and timely.

Conclusion

Prior to the formation of Publica, the Council operated a procurement card scheme to make purchases where other payment methods are not available or not suitable. Publica joined a similar scheme after its incorporation. The global pandemic forced a change in the way the Council and Publica utilised, and managed, procurement cards. Due to the urgency, in some service areas, to procure goods / services, the use of procurement cards increased. Remote working has made reconciliation between receipts and statements challenging with the legacy systems that are in place.

Our findings have been discussed with Group Finance Director and Business Manager – Finance. We have been advised that the Business Manager – Finance has been engaging with the bank and advised that a new card scheme is being explored with the aim of utilising technology to streamline processes and help address the control weaknesses detailed within this report.

The Business Manager – Finance has committed to update Internal Audit with progress on the implementation of the new procurement card scheme, ensuring all findings from our report are incorporated.

Spend Data
The following table has been included to show the percentage of Procurement Card spend to total Council Spend (as reported on the Council's website under the Transparency Page)

Financial Year	Transparency Data	Procurement Card Spend	Percentage (Procurement Card to Total)
2019/20	£29,598,314.79	£51,114.38	0.17%
2020/21	£25,819,792.73	£74,095.93	0.29%
2021/22	£24,351,962.46	£37,111.08	0.15%

Vulnerability Management – Final Report – August 2022

Audit Objective	To provide assurance that the controls in place to identify and mitigate vulnerabilities within the ICT environment are sufficient and working effectively.

Assurance Opinion

There is a generally sound system of governance, risk management and control in place. Scope for improvement was identified which may help the achievement of objectives in the area audited.

Number of Agreed Actions

Priority	Number
Priority 1	0
Priority 2	1
Priority 3	0
Total	1

Risks Reviewed

A failure to effectively (i) 'Identify' (ii) 'Remediate' and/or (iii) 'Risk Manage/mitigate' vulnerabilities within the networked estate will increase exposure to successful attack and potentially significant financial, reputational and legal damage.

Assessment

Medium

Key Findings

The disclosure of vendor hardware and software vulnerabilities presenting operational and security risk to organisations is inevitable within complex IT environments. Through discussion with the service area, we determined suitable tooling is deployed coupled with sound processes that identify, assess and enable remediation of vulnerabilities within the infrastructure. We can also take assurance processes are sufficient, by the continued attainment of PSN certification, which has been achieved for 2022-2023.

Occasionally, exploitable critical vulnerabilities requiring urgent assessment and action are disclosed. Recent incidences show that swift actions are taken in response to these.

Minor control improvements have been discussed with Management who will consider their implementation.

Audit Scope

The areas reviewed as part of this audit included;

- *The processes to identify, assess and risk manage vulnerabilities*
- *Management of the existing processes employed that enable the identification, reporting and remediation of vulnerabilities.*
- *Review and follow up of previous, related audit actions.*

Discussions were held with the ICT Audit and Compliance Manager, Infrastructure Manager.
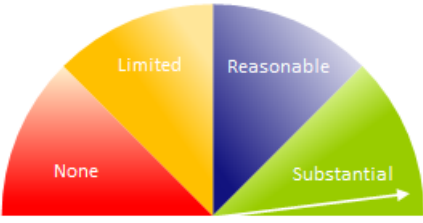
Conclusion

The nature of Vulnerability Management is ever-changing and as such, it is important all ICT personnel continue to monitor risks surrounding emerging vulnerabilities, including the identification and review of any specific exceptions to the processes or technical standards, which may exist or arise. Failure to do so, will potentially leave gaps in controls and increased exposure to compromise.

Given the levels of threats and skill of attackers faced today, the amount of, and criticality of vulnerabilities disclosed are likely to increase in the future. Essential and increasing defence activity is in addition to delivering improving levels of service demanded by organisations. Therefore, organisations need to continually improve both their capability, capacity and resilience to be able to respond in line. It is therefore important that any risks faced in this area are discussed with stakeholders, enabling appropriate decisions to support resourcing requirements.

Business Grant Funding Post Payment Assurance – Final Report – August 2022

Audit Objective	To provide assurance that COVID-19 related business grants were paid to eligible businesses, in accordance with Government guidance and Council Policies

Assurance Opinion

A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Number of Actions

Priority	Number
Priority 1	0
Priority 2	0
Priority 3	0
Total	0

Risks Reviewed

If sufficient checks and controls are not in place, ineligible recipients may receive COVID-19 business grants resulting in potential financial, fraud and reputational risk to the Council.

Assessment

Low

Key Findings

In May 2021 post payment assurance (PPA) checks were completed for a sample of business grants paid between March and April 2020, which resulted in a Substantial Assurance Opinion.

We have undertaken a post payment review on further Government grant schemes (November 2020 to April 2021). Work included;

- Verifying grant management system payments match the main financial system.
- Verifying rateable values (where applicable) agree with information held on Council systems.
- Checking relevant PPA reports for accuracy.

We can confirm there were no significant findings. All COVID-19 business grant payments reviewed were paid to eligible businesses and in accordance with Government guidance. The Counter Fraud and Enforcement Unit investigated and resolved any discrepancies identified by the grant assessors

The Counter Fraud and Enforcement Unit continue to undertake post payment checks to identify potential fraudulent claims and grants paid in error. Where these are identified, the team will take recovery action; we have also used this assurance to support our overall opinion.

Audit Scope

We reviewed a sample of cases / applications that were awarded COVID-19 business grants through schemes introduced between November 2020 and April 2021, to ensure payments were made to eligible recipients and in line with Government guidance.

Grants included in the testing were:
LRSG Closed Addendum
LRSG Closed Addendum (Tier 4)
LRSG Closed Addendum (January)
LRSG Closed Addendum (February)
Closed Business Lockdown
LRSG Closed
LRSG Open
ARG Schemes
Restart Grants

Grant Assessors, supported by Head of Service, Counter Fraud and Enforcement Unit and Head of Internal Audit, completed checks and reports for all mandatory cases and a sample of discretionary cases;

Further Comment

Conditions placed on the grant schemes were actioned by officers as appropriate e.g., regular data submission deadlines and reconciliations.

Election Expenses Treatment of VAT – Final Report – August 2022

Audit Objective	To provide assurance that the treatment of VAT on Election Expenses is in accordance with VAT regulations and the Financial Rules.

Assurance Opinion

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Number of Agreed Actions

Priority	Number
Priority 1	0
Priority 2	0
Priority 3	1
Total	1

Risks Reviewed

Failure to deliver a sustainable Financial Strategy which meets priorities and failure of individual departments to meet budget

Assessment

Low

Key Findings

It is unclear if the application of VAT on some election related expenditure is in accordance with VATGPB8680. These anomalies have been reported so they can be investigated and actioned. A formal action has not been agreed on this occasion as this will be covered in the VAT audit.

There is no guidance on the staff portal which officers can refer to to confirm the correct VAT code to be used. However, finance officers are on hand to offer advice when needed. A formal action has not been agreed on this occasion as this will be covered in the VAT audit.

The Electoral Services Manager is an experienced officer and so the risk of incorrect application of VAT is mitigated. However, in the event of absence, a guidance document which identifies the type of expenditure and its VAT treatment would aid less experienced officers when processing payments.

Recovery of expenditure incurred administering the County Council and the Police & Crime Commissioner elections is in accordance with the VAT regulation and the Council's Financial Rules.

Audit Scope

This review has been mainly completed as a desk top review of election expenditure in accordance with VAT legislation ref. VATGPB8680.

Meetings were held with the Electoral Services Manager and Publica Finance Officers to determine processes undertaken.

The areas reviewed were:
- Policy /procedure documentation
- Analysis and testing of election expenses during the period January 2020 – July 2021

Scope limitations: Salary related expenditure was not reviewed.

Summary

In February 2021, the Government issued VAT guidance for election related expenditure. The guidance was subject to interpretation and was clarified in subsequent updates. Findings relating to VAT matters identified in this review have been reported to the Finance team, which we will follow up in a forthcoming VAT audit which is planned for this financial year (2022/23). Therefore, we have not included staff awareness or training relating to the application of VAT which was initially include in the scope for this review.

To summarise, the Election Service operates sound controls for both processing and recovery of election expenditure. An action has been agreed which should help to strengthen the existing control environment.