

Cherwell District Council

Internal Audit Annual Report & Opinion 2019/2020

June 2020



cw audit
audit and assurance services

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1 Introduction

This annual report provides my opinion (see section 2) as the Head of Internal Audit to Cherwell District Council. It also summarises the activities of Internal Audit for the period 1st April 2019 to 31st March 2020.

The Council is required by the Accounts & Audit Regulations 2015 to “to undertake an adequate and effective internal audit of its accounting records and of its system of internal control, taking into account public sector internal auditing standards or guidance”. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide a written report to those charged with governance, to support the Annual Governance Statement, AGS), setting out:

- An opinion on the overall adequacy and effectiveness of the organisation’s control environment ;
- Disclose any qualifications to that opinion, together with the reasons for that qualification;
- Present a summary of the work carried out by Internal Audit during the year from which the opinion is derived, including any reliance that is being placed upon third party assurances;
- Draw attention to any issues the Head of Internal Audit deems particularly relevant to the Annual Governance Statement (AGS)
- Consider delivery and performance of the Internal Audit function against that planned;
- Comment on compliance with these Standards and the results of any quality assurance programme.

The Council should consider my opinion, together with management assurances, its own knowledge of the organisation and assurances received throughout the year from other review bodies (such as External Audit) when producing its AGS.

My opinion takes into account the range of individual opinions arising from risk-based audit assignments that have been reported throughout the year. An internal audit plan was developed to provide you with independent assurance on the adequacy and effectiveness of systems of control across a range of financial and organisational areas. **A summary of the work we have performed and delivery against the plan is provided in section 3.**

Alongside the delivery of the operational internal audit work, we have met regularly with Council management to ensure any issues regarding our performance can be highlighted and any necessary action taken to resolve these. Following each audit, management are also requested to provide feedback on the service received. No significant issues or concerns regarding the internal audit service have been raised to date.

I have discussed and agreed this Annual Report and Head of Internal Audit Opinion with the Section 151 Officer. Further detailed findings, conclusions and recommendations in the areas covered by our internal audit plan are detailed within the progress reports and individual assignment reports that have been issued to the Committee during the year.

2 Annual Head of Internal Audit Opinion

Roles and responsibilities

The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.

Internal Audit provides an independent and objective opinion to the organisation on the control environment and plays a vital part in advising the organisation whether these arrangements are in place and operating correctly.

In accordance with PSIAS, the Head of Internal Audit (HoIA) 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 risk management, control and governance processes (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that Internal Audit have reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans. As such, it is one component that the organisation takes into account in making its AGS.

The Head of Internal Audit Opinion

My opinion is set out as follows:

1. Overall opinion;
2. Basis for the opinion;

My **overall opinion** is that **significant** 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. However, some weakness in the design and/or inconsistent application of controls put the achievement of particular objectives at risk. The basis for forming my opinion is as follows:

1. An initial assessment of the design and operation of the underpinning risk management framework and supporting processes; and
2. An assessment of the range of individual opinions arising from risk-based audit assignments contained within internal audit risk-based plans 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.
3. Any reliance that is being placed upon third party assurances.

3 Work undertaken during the year

Summary of assurances provided

During the course of the year we have conducted work to provide assurance over financial, governance and operational systems. Appendix One summarises the assurance levels we have given.

Delivery of the plan

A summary of work undertaken is included below:

- During the year we have undertaken reviews of the key controls operating in your core financial systems and your risk management system and were generally able to provide full or significant assurance for each system reviewed. The exception to this was in respect of Creditor Payments, where a moderate assurance opinion was provided. The key issues that contributed to this opinion relate to the requirement to introduce regular reporting on orders raised retrospectively and invoices paid without an order and take action to ensure that orders are placed at the point when commitment to incur expenditure is made. A recommendation was also made to strengthen the checks put in place to confirm the validity of requests received from suppliers to amend bank accounts.
- The COVID-19 pandemic that began in March 2020 had a significant impact on the workload of CSN Resources, who deliver the Business Rates, Council Tax, Benefits and Debtors systems for the Council. We were therefore unable to complete our audit of these systems and it was agreed that the Council's new Internal Audit Provider, Oxfordshire County Council will conduct expanded audit reviews during 2020/21.
- Our audits did not highlight any weaknesses that we deem sufficiently serious to be highlighted as a Significant Control issue in the Council's Annual Governance Statement.

Whilst not related to the work we have completed during 2019/20, we are recommending to all our clients that the impact/potential impact of the COVID-19 pandemic (for instance on HR, service delivery/capacity, existing systems/controls and budgets) be strongly considered for disclosure as a Significant Internal Control Issue.

Third party assurances

In arriving at our overall Annual Head of Internal Audit Opinion, we have not sought to place reliance on any third party assurances.

Following up of actions arising from our work

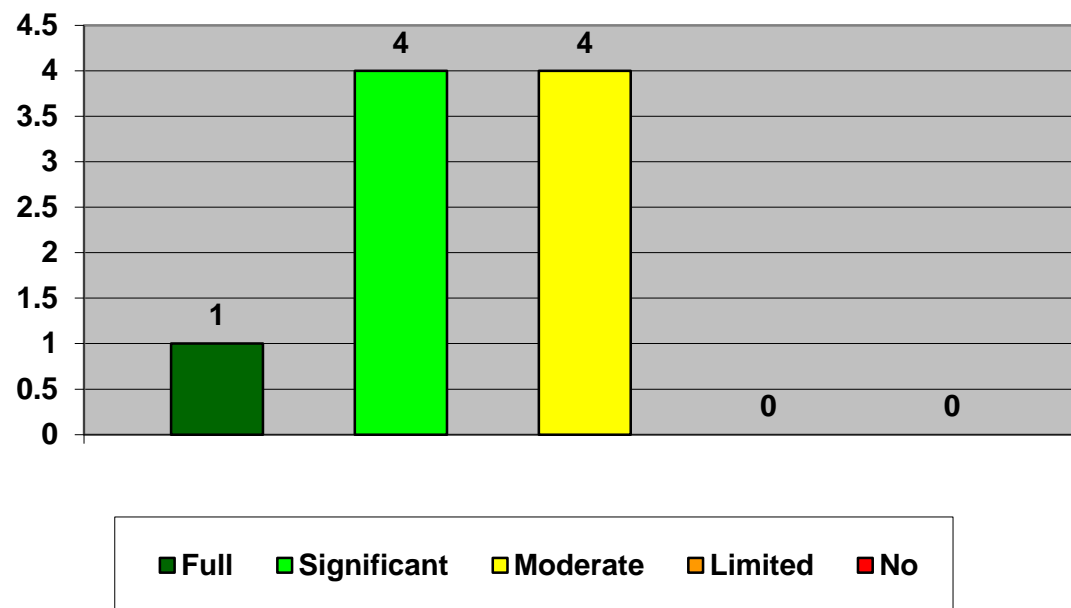
All recommendations and agreed actions are subject to an ongoing recommendation tracking process that is facilitated by CW Audit Services, but completed by the relevant managers responsible for implementing the recommendations. This is undertaken on a self-assessment basis, but is supplemented by our independent follow-up reviews where this is deemed necessary (for example following the issuance of a limited or moderate assurance report). A summary of the recommendation tracking results for the 2019/20 year is included as Appendix 2 to this report. In addition elements of our work involve annual coverage of key areas of control for the organisation, such as in relation to key financial systems, and in such cases we also routinely follow up previously-agreed actions at each review.

4 Quality Assurance

All audits have been conducted in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), which includes evidenced review by senior management of all audit files and reports produced. I can confirm that there have been no issues of non-compliance with the PSIAS during the course of the year. CW Audit's systems and processes for complying with PSIAS were confirmed as appropriate by an external assessment that was carried out in April 2018. I can confirm that all audits completed during 2019/20 were carried out in accordance with these systems and processes.

Levels of Assurance – Individual Audit Assignments

| Description of audit | Assurance level |
|-----------------------------------|-----------------|
| Risk Management | Significant |
| MOT Income | Moderate |
| Commercial Waste Income | Moderate |
| Budget Management & Reporting | Significant |
| Payroll | Significant |
| General Ledger | Significant |
| Creditor Payments | Moderate |
| Treasury Management | Full |
| Anti-Fraud & Corruption | Moderate |
| DFG Certification | N/A |
| Homes England Grant Certification | N/A |

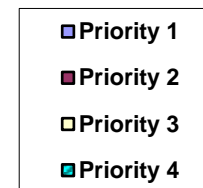
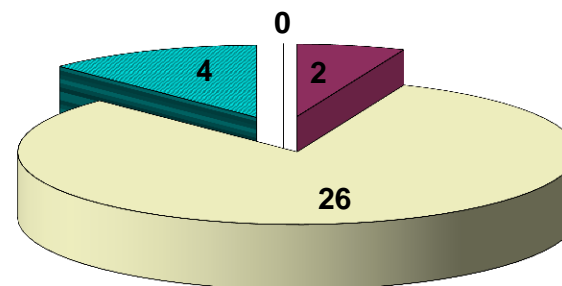


| Level of assurance | Criteria |
|--------------------|--|
| Full | No significant risk issues identified. |
| Significant | Exposure to levels of risk that may only impair the effectiveness of the system or process under review. |
| Moderate | Exposure to levels of risk that render some elements of the system's control environment undeliverable. |
| Limited | Exposure to unacceptable level of risk that could have a serious impact upon the system or process under review. |
| No | Exposure to unacceptable levels of risk that could have a serious impact upon the organisation as a whole. |

Summary of Internal Audit Recommendations

Recommendations made in 2019/20

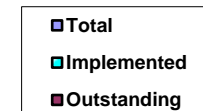
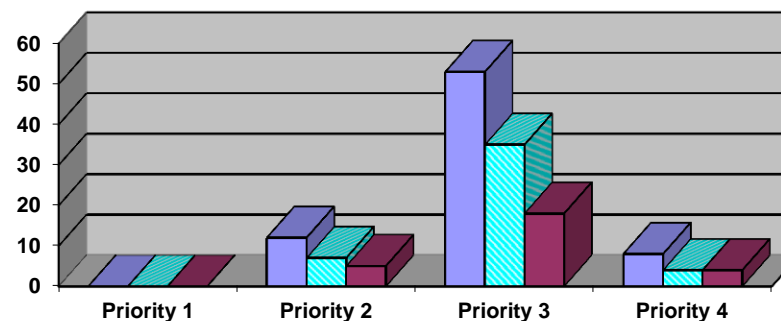
| Priority | Number |
|--------------|-----------|
| 1 | 0 |
| 2 | 2 |
| 3 | 26 |
| 4 | 6 |
| Total | 34 |



Current status of all recommendations due for implementation by 31st March 2020

(N.B. including recommendations made from 2017/18 to 2019/20, but excluding 2019/20 recommendations that fall due for implementation after 31st March 2020)

| Priority | Number | Implemented | Outstanding |
|--------------|-----------|-------------|-------------|
| 1 | 0 | n/a | n/a |
| 2 | 12 | 7 | 5 |
| 3 | 53 | 35 | 18 |
| 4 | 8 | 4 | 4 |
| Total | 73 | 46 | 27 |



Definition of our risk rankings

| Risk ranking | Assessment rationale |
|--------------|--|
| 1 | The system has been subject to high levels of risk that have, or could, prevent the system from meeting its objectives, and which may also impact on the delivery of one or more of the organisation's strategic objectives. |
| 2 | The system has been subject to high levels of risk that have, or could, prevent the system from meeting its objectives, but which are unlikely to impact on any of the organisation's strategic objectives. |
| 3 | The system has been subject to medium levels of risk that have, or could, impair the system from meeting its objectives. |
| 4 | The system has been subject to low levels of risk that have, or could, reduce its operational effectiveness. |