

Cherwell District Council
Accounts Audit and Risk Committee

29 July 2020

Internal Audit Strategy and Plan 2020/21

Report of the Director of Finance

This report is public

Purpose of report

The report presents the Internal Audit Strategy and Plan for 2020/21.

1. Recommendations

The meeting is recommended:

- 1.1 to note and comment on the Internal Audit Strategy and Plan for 2020/21.

2. Introduction

- 2.1 As council service delivery is ever changing and its complexity increases there is a requirement for a high quality, experienced and agile internal audit function. The opportunities for joint working have been reviewed and a decision made for OCC (Oxfordshire County Council) Internal Audit to work across both OCC and CDC (Cherwell District Council) from April 2020, with the core objective of continuing to provide a highly-valued service, fully compliant with Public Sector Internal Audit Standards, continuously seeking to add value by identifying areas for organisational improvement.
- 2.2 The audit planning process for 2020/21 was completed and a draft annual plan produced and presented to CEDR. (Chief Executives Direct Reports). However due to the Covid-19 pandemic, the plan was refreshed and our workplan for quarter 1 re-prioritised. A revised audit plan has been prepared and is presented in this report.

3. Report Details

Background

- 3.1 The Accounts and Audit Regulations 2015 state that the Council needs to maintain an adequate and effective system of internal audit of its accounting records, and of its system of internal control in accordance with the proper internal audit practices;

these are defined as the Public Sector Internal Auditing Standards 2013, updated March 2017.

- 3.2 The Public Sector Internal Auditing Standards defines “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
- 3.3 The Chief Internal Auditor is required to provide an annual report on the System of Internal Control which is used to inform the Council’s Annual Governance Statement. In providing this opinion we are required to review annually the financial management, risk management and governance processes operating within the Council. This includes reviewing internal control systems for key processes on a risk basis.
- 3.4 The Internal Audit Annual Plan is drafted and presented at the start of each financial year, however, will evolve and needs to be dynamic and subject to amendments / responsive to organisational change and resulting emerging risks during the year. For 2020/21, the Covid-19 pandemic has meant that the draft annual plan has already been revisited and reprioritised. The operational impacts, new control environment, any changes in governance arrangements, resulting from current events, need to be assessed and internal audit resources targeted across immediate priority areas for the organisation.

Audit Planning Methodology

Our routine annual audit planning methodology comprises of:

- 3.5 The Internal Audit Plan is developed to consider the corporate vision and priorities of Cherwell District Council, the Leadership Team’s (CEDR) priorities and management’s assessment of risk as set out in the strategic risk register. The audit plan includes cross referencing to those priorities and risks.
- 3.6 We also use our own risk assessment against each activity assessing their significance, sensitivity and materiality – ranking each activity as high, medium or low priority for inclusion within the Internal Audit Plan.
- 3.7 Audit planning is undertaken in accordance with Cherwell District Council’s Internal Audit Charter and Public Sector Internal Audit Standards.
- 3.8 As part of the annual planning process the Chief Internal Auditor meets with members of CEDR and other Senior Managers. This provides crucial insight and intelligence into the strategic and operational priorities of the organisation. Quarterly meetings with senior management are attended to ensure the plan is kept under continuous review. The plan is also reviewed quarterly with reference to the risk registers and presented to the Accounts, Audit and Risk Committee for consideration and comment. This ongoing review and insight enables the audit plan to be flexible to meet any changing assurance needs and risks of the organisation.
- 3.9 Our aim is to align our work with other assurance providers, including the External Auditors.

- 3.10 The Chief Internal Auditor continues to attend the Counties Chief Auditor Network (National Group) and also the Midland Counties and Districts Chief Internal Auditors Group to enable networking and to share good practice. This contributes to the internal audit planning activity.
- 3.11 The Accounts, Audit & Risk Committee will receive a quarterly report, including a status update on the approved work plans, and a summary of the outcomes of completed audits.

Internal Audit Resourcing

- 3.12 From 1 April 2020, the Internal Audit team commenced a joint working approach, providing the internal audit service across both Oxfordshire County Council (OCC) and Cherwell District Council (CDC). One of the key benefits of this arrangement is being able to build a more sustainable team with the skills and capacity resilience that will help embrace future challenges. We will look to fully integrate the current Internal Audit team into CDC. The audit management team strongly believe that working as an in-house internal audit function in any organisation drives an increased quality of output, as not only do the in-house team members have a good strategic and operational understanding of the organisation, but also have an ongoing commitment to organisational improvement and adding real value.
- 3.13 As partnership/joint working develops across services between OCC and CDC this will provide opportunities for joint assurance activities. There will be a “one-team” approach however there will be individual Internal Audit Plans for OCC and CDC to enable reporting to separate Committees. The internal audit structure is included in Appendix 1 for information.
- 3.14 The Committee will receive regular updates regarding the Internal Audit resourcing position. There are currently two vacancies within the team, one for a Senior Auditor and one for an apprentice trainee. There are national challenges with the recruitment of good quality internal audit staff, particularly at a senior level, therefore an important part of our strategy is to invest in developing trainees and “growing our own”. Unfortunately, the pandemic has impacted and delayed the recruitment of these vacancies, these are now being reviewed.
- 3.15 The internal audit team’s working arrangements have been disrupted in the weeks following lockdown, audit resource has been redirected to support Covid-19 payments response work, for example business grants/supplier payments.
- 3.16 The chargeable days available for CDC is 215 days for 2020/21. This includes days spent directly on audit assignments and also days spent on non-audit assignment work, for example audit planning, committee and senior management team meeting attendance, follow up of agreed management actions, production of the annual report.

Quality & Performance

- 3.17 OCC/CDC Internal Audit operates in conformance with the Public Sector Internal Audit Standards. We promote excellence and quality through our audit process, application of our Quality Assurance Improvement Programme and training and development. During 2020/21 we will be supporting 2 members of staff to complete

the Chartered Internal Audit qualification. Another member of staff has just commenced the Certified Internal Audit Qualification.

- 3.18 We use a number of ways to monitor our performance, respond to feedback and seek opportunities to improve. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.
- 3.19 The proposed performance indicators for 2020/21 are attached as appendix 2 to this report. Performance against these will be reported to the Accounts, Audit and Risk Committee on a quarterly basis.

2020/21 Internal Audit Plan

- 3.20 Appendix 3 sets out the Internal Audit Plan for 2020/21. In refreshing and re-prioritising, the internal audit plan for the year, Internal Audit needs to understand and assess the immediate and future risks resulting from the pandemic. The plan needs to remain fluid and responsive to changing priorities, new ways of organisational working and any changes to the governance arrangements and control environment.
- 3.21 The priority for quarter 1 has been in supporting the CDC Finance Team with the due diligence checks over Small Business Grants, Retail, Hospitality and Leisure Grants and Discretionary Grants.

CDC administered the Covid-19 Small Business Grant (SBG) Fund and Retail, Hospitality and Leisure (RHL) Grant Fund for the Cherwell Area. These amounted to approximately £26m in grant funding (from March 2020 onwards). Over 2000 forms have been processed at CDC for the SBG and RHL Grants.

Whilst the onus was on Local Authorities to pass on the grant funding to local businesses quickly and efficiently to prevent local economic hardship or collapse; the high level of grant funding also presented Local Authorities with a significant fraud risk.

The CDC Finance Team & CSN undertook all the initial validation checks, where those checks failed these were passed onto Internal Audit for further investigation. Internal Audit reviewed 201 cases. Internal Audit also supported the process by uploading limited company data onto the government's due diligence Spotlight system.

The combined work of CDC Finance/CSN and the Internal Audit investigations have resulted in:

- 1,913 applications were assessed as eligible, passed all the checks and were paid = £25,115,000. 103 were identified as duplicates and not paid. 208 applications did not pass the CSN/Academy data checks and were not paid
- 201 applications were sent to Internal Audit for additional checks and of these 24 failed and were not paid (£305k blocked to incorrect or potentially fraudulent business applications). The remainder have been paid or are under investigation.

- 10 cases have been passed to the fraud team for more in-depth investigation, with a potential for taking further action. One case has been passed to the Operational Culverin fraud team (national police operation).

3.22 There is an increased fraud risk whilst operating during the pandemic, and this will need to be a key focus within the internal audit/counter fraud work plans, focusing on helping to prevent loss.

3.23 During quarter 1, we have undertaken the audit of Cyber Security, the final report has been issued, with the overall grading of Amber. The executive summary is included within Appendix 4. (Executive summaries of all finalised reports, since the last committee meeting will be included in our quarterly updates to the Accounts, Audit & Risk Committee). Our Red, Amber, Green definitions are included within Appendix 4 for information.

3.24 We have also completed our review of phase 1 of the implementation of the new Finance System. It has been agreed that Internal Audit would offer advice and review of controls for the new system at the design stage, build stage and integrated systems testing stage. From the input Internal Audit have had in relation to the review of the design stage, we have no significant concerns. We have some ongoing observations which have been reported on. These observations will be followed up by Internal Audit under the build phase.

3.25 We have also started to review against Public Sector Internal Audit Standards and have updated the Internal Audit Charter for CDC, this is being presented to the July Committee for approval.

3.26 We are working with the previous Internal Audit provider to take over the monitoring of open actions, including those recently agreed within 2019/20 reports and those from previous financial years. These will be loaded onto our monitoring system and officers requested to provide updates. We will report back on the progress of implementation of these actions at the September Committee meeting.

4. Conclusion and Reasons for Recommendations

4.1 This report summarises the audit planning methodology, resourcing and strategy for delivery of the internal audit function for 2020/21. It presents the internal audit plan, progress against which will be reported back to the committee on a quarterly basis.

5. Consultation

None

6. Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: No alternative options have been identified as this report is for information only.

7. Implications

Financial and Resource Implications

- 7.1 The cost of the internal audit function has been included within the Finance budget and assessed alongside the anti-fraud and corruption activity, which is currently under review. The overall budget consequences are believed to be within the overall finance budget but can only be assessed once the arrangements for anti-fraud have been concluded.

Comments checked by:

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Legal Implications

- 7.2 There are no legal implications arising directly from this report.

Comments checked by:

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Risk Management Implications

- 7.3 There are no risk management issues arising directly from this report.

Comments checked by:

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8. Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

All corporate plan themes.

Lead Councillor

Councillor Tony Ilott – Lead Member for Financial Management.

Document Information

Appendix No	Title
Appendix 1	Internal Audit Structure Chart 2020/21
Appendix 2	Internal Audit Performance Indicators 2020/21
Appendix 3	Internal Audit Plan 2020/21
Appendix 4	Executive Summaries of reports finalised
Background Papers	
None	
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