

Cherwell District Council

Account Audit and Risk Committee

21 June 2021

Annual Report of the Chief Internal Auditor 2020/21

Report of the Chief Internal Auditor

This report is public

Purpose of report

This is the annual report of the Chief Internal Auditor, summarising the outcome of the Internal Audit work in 2020/21, and providing an opinion on the Council's System of Internal Control.

1. Recommendations

The committee is recommended to:

- 1.1 Consider and endorse this annual report.

2. Introduction

- 2.1 This is the annual report of the Chief Internal Auditor, summarising the outcome of the Internal Audit work in 2020/21, and providing an opinion on the Council's System of Internal Control. The opinion is one of the sources of assurance for the Annual Governance Statement.
- 2.2 The basis for the opinion is set out in paragraphs 3.19 – 3.29, followed by the overall opinion for 2020/21 which is that there is **satisfactory** assurance regarding Cherwell District Council's overall control environment and the arrangements for governance, risk management and control.

3. Report Details

Background

- 3.1 The Accounts and Audit Regulations 2015 require the Council to maintain an adequate and effective Internal Audit Service in accordance with proper internal audit practices. The Public Sector Internal Audit Standards 2017 (PSIAS), which sets out proper practice for Internal Audit, requires the Chief Internal Auditor (CIA) to provide an annual report to those charged with governance, which should include

an opinion on the overall adequacies and effectiveness of the internal control environment, comprising risk management, control and governance.

3.2 Our Internal Audit service conforms to the PSIAS 2017.

3.3 The Accounts and Audit Regulations 2015 require the Annual Governance Statement (AGS) to be published at the same time as the Statement of Accounts is submitted for audit and public inspection. In order for the Annual Governance Statement to be informed by the CIA's annual report on the system of internal control, this CIA annual report has been produced for the May Audit and Governance Committee meeting. This is the full and final CIA annual report.

Responsibilities

3.4 It is a management responsibility to develop and maintain the internal control framework and to ensure compliance. It is the responsibility of Internal Audit to form an independent opinion on the adequacy of the system of internal control.

3.5 The role of Internal Audit is to provide management with an objective assessment of whether systems and controls are working properly (financial and non-financial). It is a key part of the Authority's internal control system because it measures and evaluates the adequacy and effectiveness of other controls so that:

- The Council can establish the extent to which they can rely on the whole system; and,
- Individual managers can establish how reliable the systems and controls for which they are responsible are.

Internal Control Environment

3.6 The PSIAS require that the internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

3.7 The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

3.8 In order to form an opinion on the overall adequacy and effectiveness of the control environment the internal audit activity is planned to provide coverage of financial controls, through review of the key financial systems, and internal controls through a range of operational activity both within Directorates and cross cutting, including a review of risk management and governance arrangements. The Chief Internal Auditor's annual statement on the System of Internal Control is considered by the Corporate Governance Assurance Group when preparing the Council's Annual Governance Statement.

The Audit Methodology

- 3.9 The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS). The annual self-assessment against the standards is completed by the Chief Internal Auditor. It is a requirement of the PSIAS for an external assessment of internal audit to be completed at least every five years. Our next external assessment is due Winter 2022.
- 3.10 The Internal Audit Strategy and Annual Plan for 2020/21 was presented to the July 2020 Accounts, Audit & Risk Committee. The Committee then received quarterly progress reports from the Chief Internal Auditor, including summaries of the audit findings and conclusions.
- 3.11 The Internal Audit Plan, which is subject to continuous review, identified the individual audit assignments. The activity was undertaken using a systematic risk-based approach. Terms of reference were prepared that outlined the objectives and scope for each audit. The work was planned and performed so as to obtain all the information and explanations considered necessary to provide sufficient evidence in forming an overall opinion on the adequacy and effectiveness of the internal control framework.
- 3.12 Internal Audit reports provide an overall conclusion on the system of internal control using one of the following ratings:
- GREEN There is a strong system of internal control in place and risks are being effectively managed.
 - AMBER There is generally a good system of internal control in place and the majority of risks are being effectively managed. However, some action is required to improve controls.
 - RED The system of internal control is weak and risks are not being effectively managed. The system is open to the risk of significant error or abuse. Significant action is required to improve controls.
- 3.13 In appendix 1 to this report there is a list of all completed audits for the year showing the overall conclusion at the time audit report was issued, and the current status of management actions against each audit, (based on information provided by the responsible officers).
- 3.14 To provide quality assurance over the audit output, audit assignments are allocated to staff according to their skills and experience. Each auditor has a designated Audit Manager or Chief Internal Auditor to perform quality reviews at four stages of the audit assignment: the terms of reference, file review, draft report and final report stages.

The Audit Team

- 3.15 During 2020/21 the Internal Audit Service was delivered by an in-house team, supported with the specialist area of IT audit, providing the audit service across both Cherwell District Council and Oxfordshire County Council. This joint working

approach has enabled us to build a more sustainable team with the skills and capacity resilience to help embrace current and future challenges. 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.

- 3.16 To enable us to deliver the joint service across Cherwell District Council and Oxfordshire County Council, additional resources were agreed, by CEDR (Chief Executives Direct Reports) for Internal Audit and Counter Fraud. We have undertaken several recruitment campaigns during the year and successfully recruited to Senior Auditor and Assistant Auditor posts. We also now have recruited to the dedicated Counter Fraud posts. Our Counter Fraud service is now provided to Cherwell District Council from 1 April 2021.
- 3.17 Throughout the year the Accounts, Audit & Risk Committee were kept informed of staffing issues and the impact on the delivery of the Plan.
- 3.18 It is a requirement to notify the Accounts, Audit & Risk Committee of any conflicts of interest that may exist in discharging the internal audit activity. There are none to report for 2020/21.

OPINION ON SYSTEM OF INTERNAL CONTROL

Basis of the Audit Opinion

- 3.19 The 2020/21 Cherwell District Council plan has been successfully completed.
- 3.20 The plan is intended to be dynamic and flexible to change. During quarter 1 of 2020/21 the priority for Internal Audit was to support the CDC Finance Team with the due diligence checks over Small Business Grants, Retail, Hospitality and Leisure Grants and Discretionary Grants which were introduced by Government in response to the Covid-19 pandemic. 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. As previously reported to the July 2020 Accounts, Audit and Risk Committee, the combined work of CDC Finance/CSN and the Internal Audit investigations have resulted in over £300k of applications not paid / blocked as incorrect / potentially fraudulent.
- 3.21 The completed internal audit activity and the monitoring of audit actions through the action tracker system enable the Chief Internal Auditor (CIA) to provide an objective assessment of whether systems and controls are working properly. In addition to the completed internal audit work, the CIA also uses evidence from other audit activity, including counter-fraud activity, and attendance on working groups e.g. Corporate Governance Assurance Group.

- 3.22 In giving an audit opinion, it should be noted that assurance can never be absolute; however, the scope of the audit activity undertaken by the Internal Audit Service is sufficient for reasonable assurance, to be placed on their work.
- 3.23 A summary of the work undertaken during the year, forming the basis of the audit opinion on the control environment, is shown in Appendix 1. There were no audits during 2020/21 with the overall grading as Red.
- 3.24 The overall opinion for each audit, highlighted in Appendix 1, is the opinion at the time the report was issued. The internal audit reports contain management action plans where areas for improvement have been identified, which the Internal Audit Team monitors the implementation of by obtaining positive assurance on the status of the actions from the officers responsible. The current status of those actions is also highlighted in appendix 1, for each audit. Reports on outstanding actions have been routinely reported to Corporate Directors and CEDR (Chief Executives Direct Reports). The Chief Internal Auditor's opinion set out below takes into account the implementation of management actions.
- 3.25 The Anti-fraud and corruption strategy remains current and relevant. In 2020/21 the Accounts, Audit and Risk Committee have been updated on reported instances of potential fraud. Most of these are minor in nature. Work has been undertaken to address the control weaknesses identified in each area identified to reduce the possibility or reoccurrence.
- 3.26 Internal Audit continue to manage the National Fraud Initiative data matching exercise which is completed once every two years. Key matches are investigated, and results are reported to the Accounts, Audit and Risk Committee in the quarterly updates.
- 3.27 It should be noted that it is not internal audit's responsibility to operate the system of internal control; that is the responsibility of management. Furthermore, it is management's responsibility to determine whether to accept and implement recommendations made by internal audit or, alternatively, to recognise and accept risks resulting from not taking action. If the latter option is taken by management, the Chief Internal Auditor would bring this to the attention of the Accounts, Audit and Risk Committee.
- 3.28 The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.
- 3.29 In arriving at our opinion, we have taken into account:
- The results of all audits undertaken as part of the 2020/21 audit plan;
 - The results of follow up action taken in respect of previous audits;
 - Whether or not any priority 1 actions have not been accepted by management - of which there have been none;
- (Priority 1 = Major issue or exposure to a significant risk that requires immediate action or the attention of Senior Management. Priority 2 = Significant issue that requires prompt action and improvement by the local manager)

- The effects of any material changes in the Council's objectives or activities;
- Whether or not any limitations have been placed on the scope of Internal Audit – of which there have been none.
- Corporate Lead Assurance Statements on the key control processes, that are co-ordinated by the Corporate Governance Assurance Group (of which the Chief Internal Auditor is a member of the group), in preparation of the Annual Governance Statement.

Chief Internal Auditors Annual Opinion

In my opinion, for the 12 months ended 31 March 2021, there is **satisfactory** assurance regarding Cherwell District Council's overall control environment and the arrangements for governance, risk management and control.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective action and timescale for improvement.

This opinion will feed into the Annual Governance Statement which will be published alongside the Annual Statement of Accounts.

The Internal Audit service conforms to the Public Sector Internal Audit Standards (2017)

See Appendix 2 for definitions of overall assurance opinion.

Audits completed since last report to Accounts, Audit & Risk Committee

3.30 The outcomes of the audits, including a summary of the key findings are reported quarterly to the Accounts, Audit and Risk Committee. The summaries of the audits completed since the last report (March 2021) are attached as appendix 3;

- Implementation of new Finance System - Phase 3
- Discretionary Housing Payments and Homeless Prevention Hardship Fund 2020/21
- Revenue & Benefits Internal Audit 2020/21
- Payroll 2020/21

Internal Audit Performance

3.31 The following table shows the performance targets agreed by the Accounts, Audit and Risk Committee and the actual 2020/21 performance.

Measure	Target	Actual Performance 2020/21 – as at 06/05/2021
Elapsed time between start of the audit (opening meeting) and the Exit Meeting	Target date agreed for each assignment by the Audit Manager, no more than three times the total audit assignment days	78% of the audits met this target.

Elapsed time for completion of the audit work (exit meeting) to issue of draft report	15 Days	<i>100% of the audits met this target.</i>
Elapsed time between issue of draft report and the issue of the final report	15 Days	<i>88% of the audits met this target.</i>
% of Internal Audit planned activity delivered	100% of the audit plan by end of April 2021.	<i>91% of the plan has been fully completed by the end of April 2021. One audit (Payroll) was finalised during May 2021.</i>
% of agreed management actions implemented within the agreed timescales	90% of agreed management actions implemented	<p><i>As at 6 May 2021</i></p> <p><i>122 actions being monitored on the system.</i></p> <ul style="list-style-type: none"> • <i>59% implemented</i> • <i>18% not yet due</i> • <i>21% partially implem.</i> • <i>2% overdue</i>
Customer satisfaction questionnaire (Audit Assignments)	Average score < 2 1 - Good 2 – Satisfactory 3 – Unsatisfactory in some areas 4 – Poor	<i>Average score was 2</i>
<i>Directors satisfaction with internal audit work</i>	<i>Satisfactory or above</i>	<i>The review of the effectiveness of internal audit is undertaken by the Monitoring Officer every two years. Next review planned for 2021.</i>

4. Conclusion and Reasons for Recommendations

4.1 This report summarises the work of internal audit for 2020/21 and provides the annual audit opinion.

5. Consultation

5.1 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

7.1 Financial and Resource Implications

- 7.1 There are no financial implications arising directly from this report.

Comments checked by:

Michael Furness, Assistant Director of Finance, 01295 221845

michael.furness@cherwell-dc.gov.uk

Legal Implications

- 7.2 The Accounts and Audit Regulations 2015 requires the council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance, and this report draws attention to the ongoing effectiveness of that undertaking. There are otherwise no legal implications arising directly from this report.

Comments checked by:

Richard Hawtin, Team Leader – Non-contentious, 01295 221695

richard.hawtin@cherwell-dc.gov.uk

Risk Implications

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

Comments checked by:

Louise Tustian, Head of Insight and Corporate Programmes, 01295 221786

louise.tustian@cherwell-dc.gov.uk

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 number and title

- Appendix 1 - 2020/21 – progress with completion of 2020/21 Internal Audit Plan
- Appendix 2 - Annual Assurance Opinion Definitions
- Appendix 3 – Executive summaries of audits finalised since last update to AARC

Background papers

None

Report Author and contact details

Sarah Cox, Chief Internal Auditor
Sarah.cox@cherwell-dc.gov.uk