

Cheltenham Borough Council

Internal Audit Annual Opinion Report 2020/21

Internal Audit Annual Opinion – 2020/21: 'At a Glance'

Annual 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.

The Headlines

	No Significant Risks were identified during the year.
	33 reviews delivered as part of the 2020/21 Internal Audit Plan. Includes assurance, advisory and follow up reviews. 2 reviews are at draft report stage and 1 is in progress.
	Internal Audit staff redeployed directly into Council areas to assist with the COVID response. COVID 19 Business Grant processing and post payment checks.
	A number of agreed actions from 2019/20 remain outstanding, along with actions agreed during 2020/21 (some agreed actions have had time extensions due to Covid-19). We will continue to follow-up all agreed actions.
	Range of innovations and enhancements made to our internal audit process throughout the year. One-page audit report, introduction of Agile auditing and planning.

Internal Audit Assurance Opinions 2020/21

Substantial	11
Reasonable	4
Limited	0
No	0

Internal Audit Agreed Actions 2020/21

Priority 1	0
Priority 2	9
Priority 3	17
Total	26



SWAP
INTERNAL AUDIT SERVICES
Assuring – Improving – Protecting

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Executive Summary

Internal Audit provides an independent and objective opinion on the effectiveness of the Authority's risk management, control and governance processes.



Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- An opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
 - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
 - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
 - the effectiveness of risk management processes; and
 - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- Disclose any qualifications to that opinion, together with the reasons for the qualification.
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies.
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria.
- Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

Executive Summary

Three Lines Model

To ensure the effectiveness of an organisation's risk management framework, the Audit, Compliance and Governance Committee and Senior Management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- the first line – functions that own and manage risk.
- the second line – functions that oversee or specialise in risk management, compliance.
- the third line – functions that provide independent assurance.

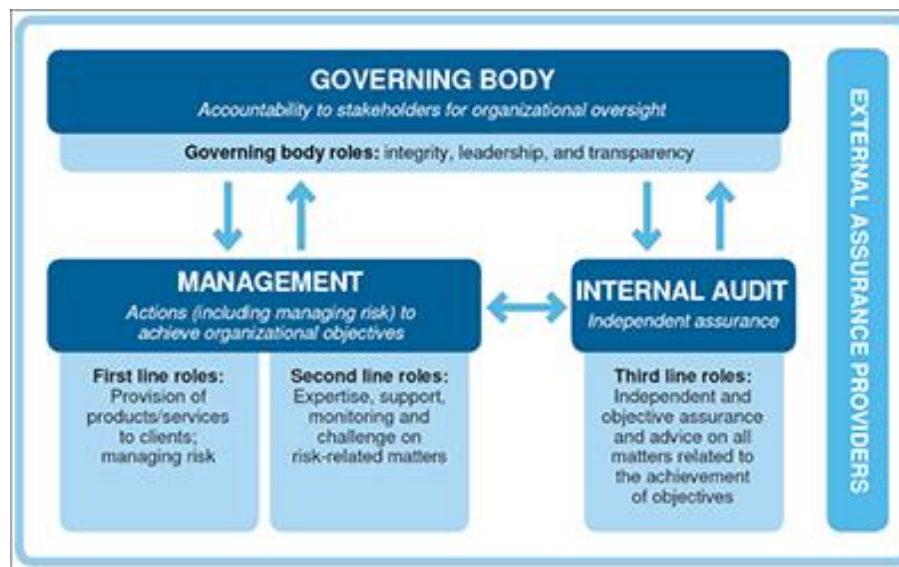


Background

The Internal Audit service Cheltenham Borough Council is provided by SWAP Internal Audit Services. The team's work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. This report summarises the activity of the Internal Audit team for the 2020/21 year.

The position of Internal Audit within an organisation's governance framework is best summarised in the Three Lines model shown below.



Executive Summary

The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

On the balance of our 2020/21 audit work for Cheltenham Borough Council, enhanced by the work of external agencies, I am able to offer a **Low Substantial Assurance** opinion in respect of the areas reviewed during the year.

Just as in more normal times, audit work has been planned to ensure that sufficient assurance will be available to support the annual opinion. The professional requirements of PSIAS have remained unchanged and in line with these, new audit priorities to cover the risks from the impact of COVID-19 have been agreed throughout the year and that work supports the annual opinion.

The additional audits performed to carry out assurance work on new risks associated with the Covid-19 emergency response were:

- *Supported the Council on data input for first round of Business Grants*
- *Audit of Covid grants*
- *Focussed analytical work – Accounts Payable, Accounts Receivable and Payroll*

Alongside direct internal audit work, the HIA can also place reliance on:

- *Work and investigations undertaken by the Council's Counter Fraud Unit*
- *Updates and PSN certification undertaken by the Council's ICT Audit and Compliance Manager*

It has been agreed to defer some of the less urgent audit work to 2021/22 and this has been reported, and is due to:

- *Additional audit work on new risks associated with COVID-19 being delivered.*
- *Some areas of the Council facing significant resource challenges as leading the Council's response to the pandemic, meaning key staff/information/systems not accessible to internal auditors.*

Executive Summary

- *Demands on internal audit for advisory and non-audit support work that may not directly support the HIA opinion.*

The following are considered key pieces of audit work that support the annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control.

- *Business Continuity*
- *Continuous assurance*
- *Key financial audits*
- *Information governance and security*
- *Key front line services*

In addition, we have considered the governance and control frameworks CBC had in place to respond, monitor, and manage the organisation's resilience through the pandemic and noted the Council was one of the first in the Country to publish its Covid Recovery Strategy.

Throughout a challenging year, we have tried to ensure a balance between providing direct assistance to the Council and maintaining a continuum of audit work. We are pleased to report we have achieved this, although it must be recognised coverage is not comparable to previous or 'normal' years.

Summary of Audit Work 2020/21

Definitions of Corporate Risk

High Risk

Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Medium Risk

Issues which should be addressed by management in their areas of responsibility.

Low Risk

Issues of a minor nature or best practice where some improvement can be made.



Significant Corporate Risks

Our audits examine the controls that are in place to manage the risks that relate to the area being audited. We assess the risk at a 'Corporate' level once we have tested the controls in place. Where the controls are found to be ineffective and the 'Corporate risk' as 'High' these are brought to the Audit, Compliance and Governance Committee attention.

We have not identified any significant corporate risks in the areas we have audited this year.

We have also continued to follow-up agreed actions made in the 2018/19 Procurement audit. Progress is being made on implementation of these actions and we will continue to follow them up. Note, updates to agreed actions have been reported throughout 2020/21 to the Audit, Compliance and Governance Committee.

Furthermore, an audit of contract monitoring and management is planned for 2021/22; the audit will provide assurance that contracts are effectively managed after the initial procurement.

Summary of Audit Work 2020/21

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

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.



Summary of Audit Opinion

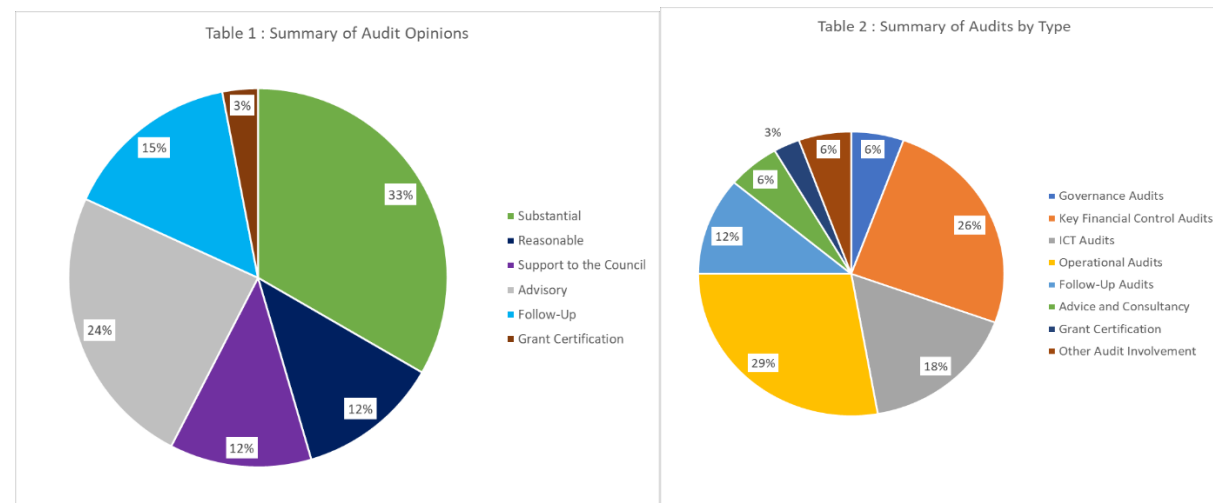


Table 1 above indicates the spread of assurance opinions across our work during the past year.

Table 2 indicates the audit work by type. Whilst assurance work is the main focus of internal audit, in a time of crisis such as the pandemic, internal audit has the knowledge and skills to be able to provide advisory work that supports the organisation through such turbulence. In addition, it was possible to progress COVID related advisory work whilst our normal assurance work was temporarily paused.

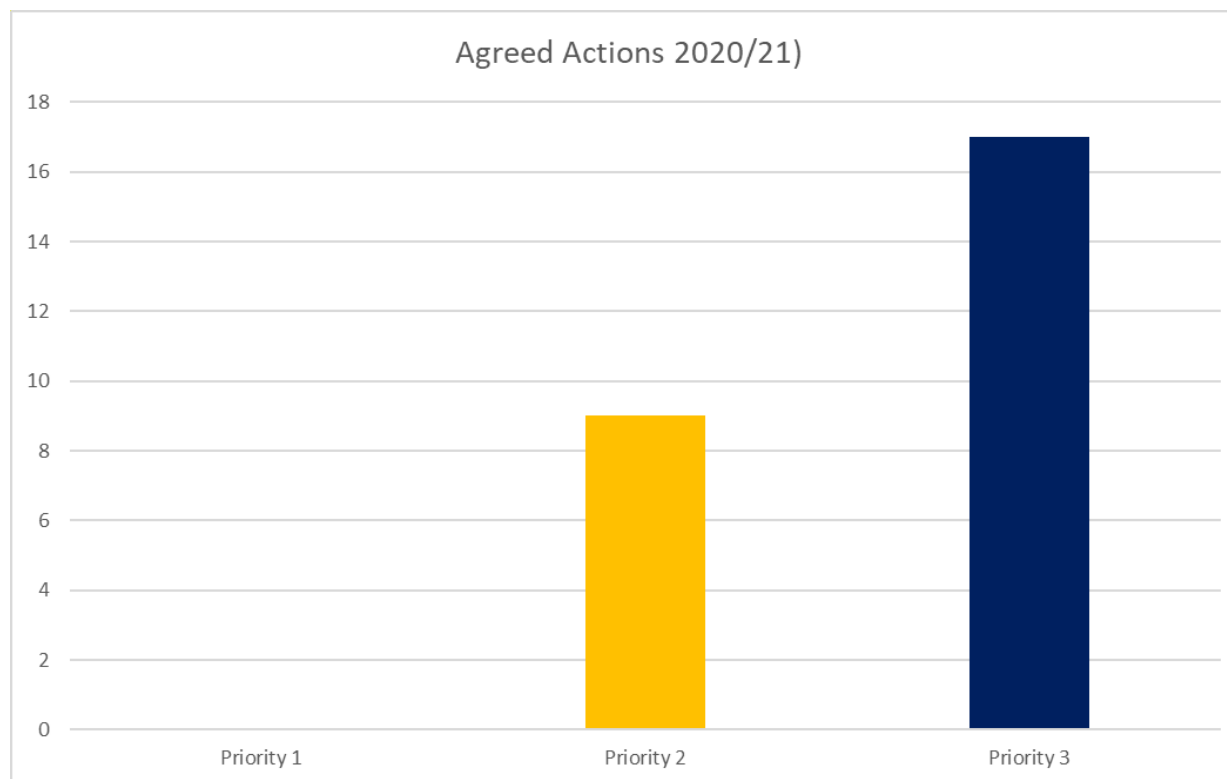
Summary of Audit Work 2020/21

SWAP Performance - Summary of Audit Actions by Priority

We rank our actions on a scale of 1 to 3, with 3 being medium or administrative concerns to 1 being areas of major concern requiring immediate corrective action



Priority Actions



Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value

Throughout the year, SWAP strives to add value wherever possible i.e. going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost.

Benchmarking

During the year we have provided benchmarking data across either the SWAP partnership or the wider reach of the Local Authority Chief Auditors Network (LACAN) for:

- Baseline Assessment of Maturity for Fraud comparison.
- Risk Management Maturity Benchmarking.
- Covid-19 Grant Controls.

Members Training

During November we ran a free Audit Committee Members training event to provide an overview of the role of the Audit Committee as well as 'hot topics' that should be on Audit Committee radars.

News Roundup

We produce a monthly newsletter that provides information on topical areas of interest for public sector bodies. During the early stages of Covid-19 we increased the frequency of our newsflash to Weekly/Fortnightly to provide relevant information.

Innovations and Enhancements to our Audit Process

During this exceptional year, we have taken the opportunity to implement and introduce a number of innovations and enhancements to our audit process. This has included:

- Introducing the concept of 'Agile Auditing' to our audit process. With increased collaboration and a joint commitment with the service under review, it is possible to complete audits faster and more efficiently. We have used this concept to complete a number of audits this year.

- Introduction of continuous audit reviews in relation to the key fundamental areas. This is a method whereby audit testing of key controls of an area or activity, is performed on a more frequent basis. It changes the audit approach from periodic reviews incorporating a small sample of transactions, to ongoing testing of a larger overall sample, with audit results produced shortly after testing. The benefits are a more reactive and timely approach to auditing which gives a continuous assurance on systems and processes throughout the year.
- With the help of SWAP's two newly appointed Data Analysts, we are looking to include analysis of data as part of our auditing wherever possible. This allows us not only the opportunity to test whole populations of data, but where this is not possible or appropriate, to be able to use data analytics to target our testing in a more effective manner.
- Introduced a new one-page audit report, that summarises all the key messages of the audit on one page for ease of consumption as well as increasing impact. Feedback on the report style has been extremely positive.
- Introduced a new continuous audit planning and risk assessment process.

Plan Performance 2020/21

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).



SWAP Performance

SWAP's performance is subject to regular monitoring and review by both the SWAP Board of Directors and the Owners Board. The respective outturn performance results for WODC for the 2020/21 year are as follows:

Performance Target	Average Performance
<u>Audit Plan – Percentage Progress</u>	
Final, Complete, Draft and Discussion 90%	97%
In progress/Review	3%
Yet to complete	0%
<u>Customer Satisfaction Questionnaire</u>	
Feedback 95%	100%


SWAP work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Under these standards we are required to be independently externally assessed at least every five years to confirm compliance to the required standards. SWAP was recently assessed in February 2020 and confirmed that we are in conformance of PSIAS.


Attribute Standard 1300 of the IPPF requires Heads of Internal Audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues this dual aspect by stating that the programme must include both internal and external assessments. This acknowledges that high standards can be delivered by managers, but it also implies that improvements can be further developed when benchmarking is obtained from outside the organisation and the internal audit function. Following our External Assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want

to make, as aligned to SWAP's Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our actions.

Summary of Internal Audit Work 2020/21

Audit Type	Audit Area	Status	Opinion	No of Actions	1 = Major		3 = Medium
					Action		
					1	2	3
Finalised and Completed Reviews							
2019/20 Audits that were In Progress or at Draft Report for 2019/20 Annual Opinion							
Key Financial Control	Accounts Receivable	Final Report	Medium Reasonable	4		1	3
Follow-Up	Procurement	Final Report	Follow-Up	N/A			
Follow-Up	Procurement and Contract Management	Final Report	Follow-Up	N/A			
Advisory	Planning Process and Complaints	Final Report	Advisory	2		2	
ICT	Business Continuity	Final Report	Medium Reasonable	1		1	
ICT	Incident Management	Final Report	Medium Reasonable	4		2	2
2020/21 Audit Plan							
Operational	Business Grant Funding – Support to Council with Data Input	Completed	Support to the Council	N/A			
Operational	Vulnerable and Shielding Residents	Completed	Support to the Council	N/A			
Advice and Consultancy	CFU Policies	Completed	Advisory	N/A			
Operational	Continuous Reporting – Core Financial Systems	Completed	Advisory	N/A			
Grant Certification	Disabled Facilities Grants	Completed	Grant Certification	N/A			
ICT	Cyber Security	Final Report	Follow-Up	5			5
Key Financial Control	Council Tax and National Non-Domestic Rates	Final Report	Low Substantial	0			

Summary of Internal Audit Work 2020/21

Audit Type	Audit Area	Status	Opinion	No of Actions	1 = Major		3 = Medium
					Action		
					1	2	3
Key Financial Control	Housing Benefit and Council Tax Support	Final Report	Low Substantial	1			1
Key Financial Control	Accounts Receivable	Final Report	Medium Substantial	0			
Key Financial Control	Accounts Payable	Final Report	High Reasonable	3		1	2
Key Financial Control	Main Accounting	Final Report	Medium Substantial	0			
Key Financial Control	Treasury Management and Bank Reconciliation	Final Report	High Substantial	1			1
Key Control	Health and Safety of Staff	Final Report	Advisory	N/A			
Key Control	Human Resources	Final Report	Low Substantial	2		1	1
ICT	Deployment of Anti-Malware Devices	Final Report	Medium Substantial	1			1
Follow-Up	Property – Use of Contractors	Final Report	Follow-Up	N/A			
Operational	Asset Management	Final Report	Low Substantial	2		1	1
Operational	Planning Applications	Final Report	High Substantial	0			
Operational	Planning Enforcement	Final Report	Advisory	N/A			
Operational	E-Learning	Completed	Advisory	N/A			
Operational	Authority’s Response to Covid-19	Final Report	High Substantial	0			
Operational	Publica Support Costs	Completed	Advisory	N/A			
Operational	Governance Arrangements for Cyber Cheltenham	Completed	Advisory	N/A			

Summary of Internal Audit Work 2020/21

Audit Type	Audit Area	Status	Opinion	No of Actions	1 = Major	↔	3 = Medium
					Action		
					1	2	3
Operational	Post Payment Assurance – Small Business Grants	Final Report	High Substantial	0			
Follow-Up	Follow-Up of All Agreed Actions	Completed	Follow-Up	N/A			
Other Audit Involvement	Working with the Counter Fraud Unit	Completed	Support to the Council	N/A			
Other Audit Involvement	Management of the IA Function and Client Support	Completed	Support to the Council	N/A			

Audit Type	Audit Area	Status	Comment
Draft Reports			
Key Financial Control	Payroll	Draft Report	
ICT	Systems Admin	Draft Report	
In Progress			
ICT	Data Recovery Capabilities	In Progress	

Summary of Internal Audit Work 2020/21

Audit Type	Audit Area	Status	Comment
Audits Deferred/Removed			
Governance	Risk Management	Deferred	Request by Client to defer to 2021/22 to review Risk Maturity
Governance	Performance Management	Deferred	Request by Client to defer to 2021/22 to review Appraisal Process
Governance	Governance of Programmes and Projects	Deferred	Deferred to 2021/22
Operational	Inclusivity and Diversity	Deferred	Deferred until appropriate to Review
Operational	Publica Transformation Benefits Realisation	Removed	
Operational	Delivery of Services by Publica	Removed	