

POLICY REVIEW AND DEVELOPMENT PANEL REPORT

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| REPORT TO: | Audit Committee | | |
| DATE: | 3 rd June 2019 | | |
| TITLE: | Internal Audit Annual Report and Opinion 2018-19 | | |
| TYPE OF REPORT: | Scrutiny | | |
| PORTFOLIO(S): | Cllr Long, Finance | | |
| REPORT AUTHOR: | Kathy Woodward, Internal Audit Manager | | |
| OPEN | | WILL BE SUBJECT TO A FUTURE CABINET REPORT: | No |

REPORT SUMMARY/COVER PAGE

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| PURPOSE OF REPORT/SUMMARY: |
| To provide the Audit Committee with an overview of the work undertaken by Internal Audit during 2018/19 and provide the Audit Managers annual opinion on the system of internal control. |
| KEY ISSUES: |
| <p>Under the Accounts and Audit 2015, the Council '<i>must conduct a review of the effectiveness of the system of internal control</i>'. The work of Internal Audit forms part of the assurance provided to Councillors and Management Team and supports the Annual Governance Statement.</p> <p>Public Sector Internal Audit Standards (PSIAS), which are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015, state that the Audit Manager '<i>must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement</i>'. This report fulfils that requirement.</p> <p>The report includes consideration of the effectiveness of the internal audit team and the basis of the Audit Manager's opinion.</p> |
| OPTIONS CONSIDERED: |
| Not applicable |
| RECOMMENDATIONS: |
| To receive the annual audit opinion and note the work of Internal Audit for 2018-19. |
| REASONS FOR RECOMMENDATIONS: |
| To comply with the requirements of the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). |

REPORT DETAIL

1. Introduction

- 1.1 Under the Accounts and Audit 2015, the Council '*must conduct a review of the effectiveness of the system of internal control*'. The work of Internal Audit forms part of the assurance provided to Councillors and Management Team and supports the Annual Governance Statement.
- 1.2 Public Sector Internal Audit Standards (PSIAS), which are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015, state that the Audit Manager '*must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement*'. This report fulfils that requirement.
- 1.3 The Internal Audit Annual Report states the Audit Manager's opinion on the system of internal control and the sources of assurance used to form this opinion.
- 1.4 To support the stated opinion, this report describes the work carried out by Internal Audit during 2018-19 and summarises the resulting findings. It also reflects on the performance against the strategic plan and the effectiveness of the Internal Audit team.

2.0 Audit Manager's Opinion

- 2.1 On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However the Audit Manager's opinion can only provide a reasonable, not absolute, level of assurance as to the adequacy and effectiveness of these systems.
- 2.2 Bearing this in mind, in the Audit Manager's opinion, the Council's control arrangements were adequate and effective in 2018-19, with sound controls in all key areas.

3.0 Effectiveness of the Internal Audit team

- 3.1 The Internal Audit team consists of a part time Shared Internal Audit Manager, 1.7 FTE Auditors and 1 full time Investigation Officer/Internal Auditor. The Shared Internal Audit Manager is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA). The Internal Auditors have either achieved a Practitioner status of the IIA or hold equivalent qualifications. The Investigation Officer/ Internal Auditor is PINS (Professionalism in Security) qualified and also an Accredited Counter Fraud Manager, and is currently training as an Internal Auditor. The full time Auditor is also undergoing training and has received mentoring support from within the team.
- 3.2 This year is the second full year of the Shared Internal Audit Management arrangements with Fenland District Council.
- 3.3 At the start of the year recruitment was still underway to the vacant part time auditor post, which was completed in July 2018. The successful applicant has received mentoring support and this has meant a reduction in resource during this year. This temporary

reduction in resource had a minor impact on the planned work that could be completed in the year, resulting in planned low risk audits being removed from the plan and more work being continued into 2019/20 than previously anticipated. However sufficient work was completed in 2018/19 to enable the Audit Manager to reach a valid conclusion on the effectiveness of the internal control systems.

- 3.4 All members of the team undertake training as part of their Continued Professional Development (CPD). This can take the form of attending externally run courses or in-house provision. A list of the courses attended is attached as **Appendix 1**. The training covers not only technical audit issues, but also subjects that the team have to consider as part of the various audits. This all forms part of the 'Knowledge of the Business' that is fundamental to the conduct of constructive audits. The team are also expected to be aware of reports going to the various panels and committees.
- 3.5 Where specialist IT audit skills are required the Audit Manager has the facility to use the IT audit services provided under the contract between Eastern Internal Audit Services (formerly the Norfolk Internal Audit Consortium), based at South Norfolk District Council, and TIAA Ltd.
- 3.6 The Internal Audit service is independent of any operational responsibilities and manages its own budget. During 2018/19 line management was through the Executive Director – Finance Services (s151 Officer) / Deputy Chief Executive, but direct access to the Chief Executive, Leader, or Chair of the Audit Committee was available if required.
- 3.7 Internal Audit have Terms of Reference which were approved by the Audit Committee on 04th September 2017. These describe the scope and objectives of the service, confirm the independent status, authority and standards by which the team operate, and define the responsibilities. The audit style and content, reporting lines and resources are also included.
- 3.8 All work in 2018/19 has been performed according to the Public Sector Internal Audit Standards (PSIAS) which are mandatory. The standards, based on the Chartered Institute of Internal Auditors' (CIIA) International Professional Practices Framework and augmented by the Local Government Application Notes (LGAN), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 3.9 To ensure the internal audit function meets the PSIAS requirements, an independent external quality assessment is required every five years. Such a review was carried out in 2014 by the CIIA and the next review is due in 2019.
- 3.10 The self-assessment checklist produced by the Chartered Institute of Internal Auditors (CIIA), consisting of 207 questions, is completed in the intervening years to ensure that the team continue to comply. The overall result for 2018/19 was positive. The completed PSIAS Conformance checklist is available to Members of the Audit Committee on InSite.

4.0 Basis of Assurance

4.1 Each year a Strategic Audit Plan is prepared by the Audit Manager, showing specific audits for the next financial year and proposals for the next few years. This is then presented to the Audit Committee to endorse. The plan for 2018/19 was agreed on 12th February 2018.

4.2 The Strategic Audit Plan for the year is constructed using the Assurance Framework as a basis, with no limitations in scope. The Assurance Framework is a risk based tool that divides the activities of the Council into five high level, and a sixth operational / service based domains. Within these domains various activities are risk assessed and the frequency of audits for each area is based on the results. The risk assessment includes any assurance that can be gained from external sources such as the internal audit carried out by Bedford Borough Council for payroll processing. Other sources include the work of Health and Safety specialists and Security Industry Authority 'Approved Contractor' status for CCTV.

In addition to the Assurance Framework, the Shared Internal Audit Manager has regard for:

- Corporate Business Plan
- Discussions with the Executive Directors
- Entries on the Corporate Risk register
- Comments from the external auditors

4.3 At the end of each audit a formal report is issued, containing an action plan agreed with the relevant managers to address any control weaknesses identified during the audit. The audit reports are entered in to a restricted area of InSite for members of the Management Team and the Audit Committee to view.

4.4 Each report attributes a level of assurance gained for the area being audited as below:

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|-----------------------|---|
| Full Assurance | A sound system of internal control that is likely to achieve the system objectives, and which is operating effectively in practice. |
| Substantial Assurance | A sound system of internal control, but there are a few weaknesses that could put achievement of system objectives at risk. |
| Limited Assurance | A system of internal control with a number of weaknesses likely to undermine achievement of system objectives, and which is vulnerable to abuse or error. |
| No Assurance | A fundamentally flawed system of internal control that is unlikely to achieve system objectives and is vulnerable to serious abuse or error. |

4.5 During the year 13 internal audit reports have been issued and the results are summarised in the table at **Appendix 2**. Whilst most of the audits indicate a 'Full' or 'Substantial' level of assurance, one cases requires further explanation:

- The KLIC Lessons Learnt Review was commissioned by the Chief Executive and produced in a different format to our typical reports. An assurance rating was not applied to this piece of work, but the results were presented directly to the members of the Audit Committee and Full Council. There were 35 recommendations made that have been considered in detail by the Audit Committee and a cross party working group has been established to continue to review the recommendations. In addition to the cross party working group and independent

review has been commissioned as requested by Full Council. The results of the independent review, the cross party working group and the follow up review to Internal Audit's review will be considered as part of next year's audit opinion. .

There were no instances of 'Limited' or 'No Assurance' reports being issued.

- 4.6 Each audit is followed up approximately six months after the report has been issued to establish if recommendations are being implemented in accordance with the agreed action plan. Follow-up reports for 2018/19 indicate a good level of implementation with no major concerns raised and I would like to thank all managers for being receptive to our comments and recommendations.
- 4.7 Progress against the strategic plan, including summaries of the reports issued and any amendments to the plan were reported to the Audit Committee during the year.

5.0 Anti-Fraud and Anti-Corruption Procedures

- 5.1 Work with the National Fraud Initiative (NFI) has continued this year, with checks on the all of the matches from the 2016/17 exercise and the Flexible Matching Service being completed.
- 5.2 Work is currently underway for the 2018/19 NFI data matching exercise and work will commence on investigating the reported matches in 2019/20.
- 5.3 Throughout 2018/19 we have explored other routes available to us to be more proactive in our attempts to prevent, detect and deter fraud and error.
- DWP Joint Working commenced in December 2018.
 - Norfolk Counter Fraud Hub has been established and work will begin in 2019/20.
- 5.4 The Internal Audit Team did not conduct any internal fraud investigations during 2018/19.

6.0 Risk Management

- 6.1 The process for reviewing and updating the Risk Register has transferred to the Performance and Efficiency Manager, but responsibility for risk management lies with the Senior Management Team (SMT). As well as receiving the Internal Audit reports for their respective areas, which provide an indication of any weaknesses in the control environment, the SMT also review the Corporate Risk register on a 6-monthly basis in April and October. If any significant issues arise in the intervening period, they are discussed at the time and the register amended. The Audit Committee receive the Corporate Risk Register after it has been updated at the regular 6-monthly intervals.

7.0 Conclusion

7.1 The system of internal control is designed to manage risk to a reasonable level, and therefore cannot provide absolute assurance.

7.2 Notwithstanding the above, based on the audit work completed during 2018-19, it is the opinion of the Audit Manager that:

- Adequate assurance can be gained in respect of the overall systems of internal control operating within the council.
- Risk management systems and corporate governance arrangements are satisfactory.

8. Background Papers

Strategic Internal Audit Plan
Public Sector Internal Audit Standards (PSIAS)
Half year progress report
Year end progress report

Training undertaken by Internal Audit 2018/19 included:

Display Screen Equipment
BCKLWN Corporate Induction
Business Continuity
Data Protection, Freedom of Information & Environmental Information
Regulations
Equalities - What Employees Need to Know
Health & Safety Awareness
Fire Safety Awareness
Manual Handling
IT Security
Customer Care Skills
Disability Equality Training
General Data Protection Regulations 2018
Cambridgeshire Audit Group Training Day (CAMSAG)
Procurement & Contract Management Training
Effective Minute Taking
Skyguard Training - Managers and Admin
Criminal Finance Act 2017
RIPA Training
Finance system – various modules

Audit reports issued during 2018/19 showing assurance levels

| Audit title | Full Assurance | Substantial Assurance | Limited Assurance | No Assurance |
|---|-----------------------|------------------------------|--------------------------|---------------------|
| Accounts Receivable | | ✓ | | |
| Alive Leisure and Management ¹ | | | | |
| Asset Register and Inventories | | ✓ | | |
| Benefits | ✓ | | | |
| Care and Repair | | ✓ | | |
| Council Tax and Business Rates | ✓ | | | |
| Ethical Culture | ✓ | | | |
| Risk Management | | ✓ | | |
| <i>Child Protection</i> | | ✓ | | |
| <i>Treasury Management</i> | | ✓ | | |
| <i>External Communications</i> | ✓ | | | |
| <i>Housing Strategy</i> | | ✓ | | |
| KLIC Lessons Learnt Review ² | | | | |

** These reports have been completed but the final versions have not been published at the time this report was being prepared.*

¹ Due to the ongoing changes relating to Alive Leisure Trust and Alive Management this report was not issued with an assurance rating, but suggestions and recommendation were provided to the Council's Management team for consideration while reviewing the available future options for leisure provision.

² KLIC Lessons Learnt Review – See comments in section 4.5 of the report.