

## POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	27 <sup>th</sup> July 2020		
TITLE:	Internal Audit Annual Report and Opinion 2019-20		
TYPE OF REPORT:	Scrutiny		
PORTFOLIO(S):	Performance		
REPORT AUTHOR:	Kathy Woodward, Shared Internal Audit Manager		
OPEN		WILL BE SUBJECT TO A FUTURE CABINET REPORT:	No

### **REPORT SUMMARY/COVER PAGE**

PURPOSE OF REPORT/SUMMARY:
To provide the Audit Committee with an overview of the work undertaken by Internal Audit during 2019-20 and provide the Audit Manager's annual opinion on the system of internal control.
KEY ISSUES:
<p>Under the Accounts and Audit Regulations 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 2019-20.
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 Regulations 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 2019-20 and summarises the resulting findings. It also reflects on the performance against the strategic plan and the effectiveness of the Internal Audit team.

### **2. Audit Manager's Opinion**

- 2.1 The Council is required to report in its annual statutory financial statements an assessment as to the adequacy of the internal control environment, risk management, and governance arrangements. This is referred to as the Annual Governance Statement.
- 2.2 Information for this purpose is drawn from many sources one of which is the work of Internal Audit in that financial year, and up to the date of the approval of the annual accounts. All audits have been carried out in conformance with the Public Sector Internal Audit Standards.
- 2.3 As part of the Annual Governance Statement evaluation, an assurance mapping exercise takes place which documents and establishes additional sources of assurance.
- 2.4 The annual audit opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control
- 2.5 Based on the work that Internal Audit has performed the Internal Audit Manager's opinion for 2019-20 is that, there is "adequate" assurance as to the adequacy and effectiveness of internal controls, the risk management and governance arrangements. Management has adopted plans for improvement in control, and within appropriate timescales that will be followed-up to ensure further improvement is delivered. Potential risks and opportunities for further improvement have been incorporated into Management Action Plans.
- 2.6 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.

### 3. 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 third full year of the Shared Internal Audit Management arrangements with Fenland District Council.
- 3.3 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.
- 3.4 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.
- 3.5 The Internal Audit service is independent of any operational responsibilities and manages its own budget. During 2019-20 line management was through the Executive Director – Finance Services (s151 Officer) / Deputy Chief Executive until July 2019 and the Chief executive for the remainder of the year but direct access to the Leader, or Chair of the Audit Committee was available if required.
- 3.6 Internal Audit have Terms of Reference which were approved by the Audit Committee on 4<sup>th</sup> 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.
- 3.7 All work in 2019-20 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.
- 3.8 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 was due in 2019. This review is currently being procured, but as a result of Covid-19 has been delayed. A further update will be provided to Audit Committee members.

3.9 The self-assessment checklist produced by the Chartered Institute of Internal Auditors (CIIA), consisting of 207 questions, is completed each year to ensure that the team continue to comply. The overall result for 2019-2020 was positive. The completed PSIAS Conformance Checklist for 2019/20 is available to Members of the Audit Committee on InSite.

#### 4. 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 2019-20 was agreed on 11th March 2019.

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 and Modgov 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:

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 20 internal audit reports have been issued and the results are summarised in the table at **Appendix 2**. All of the audits for 2019-20 indicate a 'Full' or 'Substantial' level of assurance.

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. Anti-Fraud and Anti-Corruption Procedures**

- 5.1 Work with the National Fraud Initiative (NFI) has continued this year, with checks on the majority of matches from the 2018-19 exercise being completed and work is currently underway on the 2019 Flexible Matching Service.
- 5.2 Work with the Norfolk Fraud Hub commenced this year and the majority of matches identified have been completed. So far this has not identified any fraud or error.
- Throughout 2019-20 we have explored other routes available to us to be more proactive in our attempts to prevent, detect and deter fraud and error. Norfolk Counter Fraud Hub has been established and work began in 2019-20.
  - Funding has been provided by Norfolk County Council to utilise a NFI premium service. The value of funding made available is approx. £90,000 for a two year project and this funding will pay for the NFI premium product and also a resource to process the additional matches. So far approx. 1400 matches have been identified and will be reviewed during 2020-21.
- 5.4 The Internal Audit Team did not conduct any internal fraud investigations during 2019-20.

## **6. 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 Management Team (MT). As well as receiving the Internal Audit reports for their respective areas, which provide an indication of any weaknesses in the control environment, the MT 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. 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 2019-20, 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 2019-2020 included:**

Cyber-Security Awareness Training

PACE training

Public Sector Employment Tax and VAT

Health and Safety Risk Assessment

Coaching Skills training

Positive Mindset Training

Fighting Fraud and Corruption Locally seminar

NFI AppCheck training

Finance System

**Audit reports issued during 2019-20 showing assurance levels**

<b>Audit title</b>	<b>Full Assurance</b>	<b>Substantial Assurance</b>	<b>Limited Assurance</b>	<b>No Assurance</b>
Housing Strategy		✓		
Child Protection		✓		
Treasury Management		✓		
Community Infrastructure Levy		✓		
Vehicle Fleet		✓		
Legal Services		✓		
Procurement		✓		
Data Quality and Interpretation (GDPR & DPA)		✓		
Careline		✓		
Allotments		✓		
Council Awarded Grant Funding		✓		
Cyber Security		✓		
Land Charges		✓		
Document Management		✓		
Personal Identifier and Financial Relationship		✓		
Whistleblowing		✓		
Prevention of Fraud and Corruption		✓		
Annual Governance Statement		✓		
Car Parking & Civil Enforcement		✓		
Refuse Collection & Recycling		✓		