

Borough Council of King’s Lynn and West Norfolk

Internal Audit Internal Assessment against the Public Sector Internal Audit Standards

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Introduction

The role of the Internal Audit Manager for the Borough Council of King’s Lynn and West Norfolk is now being carried out by Eastern Internal Audit Services (EIAS). Faye Haywood from South Norfolk Council has been working with the in-house Internal Audit team to provide management support including the review of the Internal Audit plan, review of Internal Audit scoping documents and draft reports.

As part of this role, the Internal Audit Manager has carried out an assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS) to highlight any areas where improvements may be required. This exercise is necessary for the Internal Audit Manager to determine how much reliance can be placed on the assurances coming from the function, which will be used to determine the annual opinion on the Governance, Risk Management and Control at the Council. The purpose and objectives of the PSIAS is as follows:

- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying out internal audit in the UK public sector;
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

This report provides the results from the assessment of the Internal Audit Manager and proposes recommendations to improve conformance against the PSIAS for the Audit Committee’s consideration and endorsement.

Methodology

This assessment has been undertaken by reviewing Internal Audit documentation and through discussions with the in-house Internal Audit team, the previous and existing Chair of the Audit Committee and the Assistant Director Resources (S151 Officer) and the results shared with the Management Team.

Findings

Positive conformance

This assessment has confirmed conformance with the following key areas of the PSIAS requirements.

1110 Independence

The Internal Audit team report to a level within the Council that allows the Internal Audit activity to fulfil its responsibilities. The team reports directly to senior management through the Assistant Director Resources and has unfettered access to Senior Management and the Chair of the Audit Committee.

2020 Communication and approval

The Internal Audit activity's plans and resource requirements have been communicated and approved by Management Team and the Audit Committee.

2060 Reporting to Senior Management and the Board

The Internal Audit function reports periodically to senior management and the Audit Committee on performance relative to the plan.

2200-2400 Engagements

For those engagements observed, the Internal Audit team demonstrates well researched and carefully considered engagements that meet the originally agreed objectives. Communication of engagement results are clear and concise and distributed appropriately.

Required improvements

The following observations have been made about areas where improvements should be made to demonstrate conformance with the PSIAS.

1200 Proficiency and Due Professional Care

The standards require that Internal Auditors shall engage only in those services for which they have the necessary knowledge, skills and experience. Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. Competent advice and assistance must be obtained if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

The Internal Audit team are involved in auditing Information Technology controls within the current internal audit plan in areas of disaster recovery and networks. The in-house resource does not currently hold a relevant IT audit qualification i.e., CIISA or QICA and or relevant experience required to provide assurance over these risks.

Two significant risks have been raised within the corporate risk register that relate to IT vulnerabilities and Cyber Security related risk. It is advised that Information Technology qualified

auditors are used to provide assurance over the mitigation required to manage the significantly scored corporate risks.

1000 Internal Audit Charter

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter. This must be periodically reviewed and presented to senior management and the Audit Committee for approval. The internal audit charter is a formal document which establishes the internal audit activity's position within the organisation, including the nature of internal audit's functional reporting relationship; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

A review of the existing Internal Audit Charter currently named "Internal Audit Terms of Reference" has been undertaken and compared with the requirements of the above standard. The document was required for re-approval by the Audit Committee in July 2020. This has not yet occurred.

The Charter does not currently provide a Mission Statement for Internal Audit used to articulate its overall purpose and summarise the way it will provide value to the organisation.

The Charter also does not currently define the role of Internal Audit in any fraud-related work of which the Senior Internal Auditor is involved.

1300 Quality Assurance and Improvement Programme

The standards require the Chief Audit Executive to assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. This is partly complied with by undertaking an annual internal assessment against the PSIAS which has regularly occurred. However, this standard also requires that ongoing performance monitoring takes place which includes comprehensive performance targets. The performance targets mentioned below are provided to Audit Committee within progress reports:

- Delivery of Audit Plan – target 95%
- Percentage of time spent on audits - target 60%

However, it has already been recognised by the team that the above targets are not comprehensive and do not provide for stakeholder feedback which is a requirement of this standard.

It is proposed that the performance targets for the function are designed and agreed with senior management and the Audit Committee and that these will include the opportunity for regular feedback from stakeholders and details of continuing professional development of team members to demonstrate skills are kept up to date. Ideally a balanced scorecard approach will be taken to ensure that performance of the Internal Audit function can be demonstrated across a range of internal audit objectives.

1312 External Assessment

The PSIAS requires all Internal Audit functions in the UK Public Sector to be independently externally assessed every five years. The last external assessment was undertaken in September 2014 and was therefore due in September 2019. Due to the pandemic this review was postponed but should now be re-scheduled.

2010 Planning

A risk-based plan must be established to determine the priorities of the internal audit activity, consistent with the organisation's goals. The Internal Audit Manager is required to review the Internal Audit plan on a regular basis and adjust when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls. This is to ensure that the internal audit plan of work is providing the Audit Committee and the council with assurance over the management of the most significant risks and is maximising value from the Internal Audit resource.

A review of the approved plan has been undertaken and compared with the Corporate Risk Register, council objectives and where applicable, previous audit gradings given in each area to determine whether assurance is sufficient to provide an annual opinion. Allocated days were also compared with available resource.

This exercise has highlighted that an additional audit of Waste Services should be added to the plan for 2021/22. This risk is scored as inherently likely and major for the Council due to uncertainty around the success of new service arrangements. A substantial assurance opinion was given in this area in 2020/21, however this did not reflect the mobilisation of the new waste contract which commenced in April 2021. An audit of this area would therefore provide valuable assurance and can be coordinated with audits being undertaken with the other two Council Partners, as both are also members of the EIAS consortium.

A review of Housing Standards is also recommended to provide assurance over inherently likely and major risk regarding the recently updated Houses of Multiple Occupation (HMO) regulations. A limited assurance opinion was given in this area in 2018/19.

Additions	Days	Previous Grading	Quarter
Waste Services	15	Substantial	4
Housing Standards	10	Limited	4
Total	25		

It is proposed that the following audits are removed from the 2021/22 Internal Audit Plan as they do not reflect significant risks to the Council. Each area will continue to be risk assessed each year during the audit planning process.

Audit	Days	Last Reviewed	Previous Grading	Information
Care and Repair	7	2018/19	Substantial	No corporate risk raised
Play Areas	10	2016/17	Substantial	No corporate risk raised
Amenity Property & Land	15	2016/17	Unknown	No corporate risk raised
Democratic Services	15	2014/15	Substantial	No corporate risk raised
ICT Wireless Networks	15	2013/14	Substantial	A review of network security should be rescheduled with dedicated IT resource.
Performance and Appraisal	15	2015/16	Substantial	No corporate risk raised
Bribery Act	10	2019/20	Substantial	Will be incorporated into Counter Fraud and Corruption
Asset Register	15	2016/17	Substantial	No corporate risk raised
Total	102			

The above suggested amendments to the plan will ensure that assurance is provided in key risk areas and better reflects the available resources of the Internal Audit team for the remainder of the year. The proposed internal audit plan is provided at **Appendix 1**.

In conformance with the above standard, it is also recommended that the Internal Audit Manager undertakes a review of the Council’s risk maturity to evaluate the level of reliance that can be placed on the assessment of risk at the Council and where applicable, suggest recommendations if improvements are required. This exercise will be undertaken ahead of the Internal Audit planning process for 2022/23.

This standard also requires that the risk-based plan takes into account the organisation’s assurance framework. In preparation for the planning process, the Internal Audit team is developing an audit universe and feeding into an assurance map by working with the Senior Policy & Performance Officer and using information compiled from management for the Annual Governance Statement.

2500 Monitoring Progress

In conformance with the standards a follow-up process must be established to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

The Internal Audit team holds a Recommendations Database showing all agreed Internal Audit recommendations and carries out follow up of these one month after they fall overdue. The Council currently has 130 recommendations that have now surpassed their agreed deadline date. Of these, 2 are high priority, 65 are medium priority and 63 are low priority. A summary table of current recommendations along with the status of each is provided at **Appendix 2**.

In order to adhere to the above-mentioned standard, it is proposed that an exercise is undertaken to obtain an update for all overdue high/medium priority recommendations. Following this, on a quarterly basis a report will be produced containing the reason for all overdue recommendations for Management Team. This meeting will occur prior to the report being produced for each Audit Committee meeting to enhance accountability and ensure that risks identified by Internal Audit are resolved in a timely manner.

Where recommendations are raised during Internal Audit reviews, the auditors will work with the responsible officers to determine a deadline that they have confirmed is achievable in line with grading guidelines provided below. Once accepted, this deadline can be revised; however, a reason for any delays must be justified and provided to Management Team and the Audit Committee for their awareness.

Priority	Timing guidance
High	Fundamental control issue on which action to implement should be taken within 1 month.
Medium	Control issue on which action to implement should be taken within 3 months.
Low	Control issue on which action to implement should be taken within 6 months.

Once a recommendation is considered complete, in order to provide the Audit Committee with assurance that the identified risk has been mitigated, Internal Audit will carry out independent

verification of any high or medium priority recommendations, requesting evidence and/or carrying out further testing as deemed appropriate. Low priority recommendations will be closed upon receiving responsible officer confirmation.

2410 Criteria for communicating

This standard requires audit reports to include the internal auditors' opinion where applicable. The opinion must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

The Council uses a four-tier opinion for each audit overall. These opinions are 'no assurance, limited assurance, substantial assurance and full assurance'.

When an Internal Audit engagement is planned, a judgement is made by the auditor and approved by the Audit Manager regarding the number of control areas and level of testing that will be undertaken to provide sufficient assurance.

Where a full assurance grading is summarised overall, it could misleadingly suggest that all controls pertaining to that area have been evaluated and no issues have been identified. Internal Audit cannot provide absolute assurance over controls, no matter how well they have been constructed and operated, as they are affected by inherent limitations. These could include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

It is therefore recommended that the 'full assurance' grading is removed. The following grading terminology is provided to demonstrate an alternative whilst retaining the four-tier approach.

Grading	Description
Substantial	Based upon the issues identified there is a robust series of suitably designed internal controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our review were being consistently applied.
Reasonable	Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisation's management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.
Limited	Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.
No Assurance	Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.

Summary of Recommendations

1. To provide assurance required over complex risks identified within the Corporate Risk Register it is advised that IT audit resource is used to undertake this work for the Council in future.
2. The Internal Audit Charter is updated to provide a Mission Statement and provides details of fraud related work undertaken by the Senior Internal Auditor. The Internal Audit Charter should then be reapproved by Management Team and Audit Committee.
3. Performance metrics are designed across a range of Internal Audit objectives and are agreed by Management Team, the Audit Committee and results against target are provided within progress reports.
4. An externally validated assessment is scheduled to provide independent assurance over conformance with the PSIAS.
5. Internal Audit plan to be revised to reflect the current risk profile of the Council.
6. Risk Maturity Assessment to be undertaken by the Internal Audit Manager ahead of the 2022/23 planning process.
7. Audit Universe populated by the Internal Audit Team and used to support an Assurance Framework.
8. Follow up process to be redesigned allowing for quarterly reporting to Management Team, Audit Committee and to allow for Internal Audit verification of completed recommendations.
9. Audit opinions to be revised.

Conclusion

The Internal Audit Manager has evaluated the Internal Audit function against the Public Sector Internal Audit Standards to determine any improvements required ahead of giving an overall opinion on the governance, risk management and control framework at the Council.

A total of nine key recommendations have been raised for management consideration as a result.

These improvements will enhance the Internal Audit function's ability to provide a value-added service and ensure conformance with the relevant standards. This report is provided to the Audit Committee for their consideration, provide feedback and where appropriate for the recommendations to be endorsed.

Appendix 1 – Internal Audit Plan 2021/22

Audit title	Allocated Audit days	Proposed Audit Quarter.	Status	Previous Assurance Level	Risk
Economic Development	4	1	Complete	Substantial	Corporate risk score 12
Planning Enforcement	5	1	Draft report	Substantial	No significant risk in CRR raised. Report has been issued in draft.
Information Legislation (DPA, FOI, EIR)	10	1	Complete	Substantial	Corporate risk score 16
Street Cleansing	5	1	Testing	Substantial	No significant risk in CRR raised, majority of testing has been completed.
Council Tax & Business Rates	10	2	Draft report	Substantial	Core internal audit – key financial system
Financial Management Systems	20	2	Testing	Full	Corporate risk score 20
Benefits	10	2	Draft report	Substantial	Core internal audit- key financial system
Emergency Planning & Management	15	2	Testing	Full	Corporate risk score 16
Covid-19 Business Grants	17	2	Draft report	New Area	Internal Audit assessed as High Risk
Policies	5	2	Draft report	Limited	No significant risk in CRR raised.
Alive West Norfolk	20	3	Testing		Corporate risk score 20
ICT Disaster Recovery	15	3	Testing	Substantial	Corporate risk score 16
Licencing	15	3	Testing	Substantial	No significant risk in CRR raised. Determined medium risk. Last reviewed in 2016/17.
Accounts Payable	20	3	Testing	Substantial	Core internal audit - key financial system
Financial Governance and Budgetary Control	20	3	Testing	New Area	Corporate risk score 16
Payroll, expenses and allowances	20	4	Planned	Full	Core internal audit - key financial system
Food Safety and Health & Safety	15	4	Planned	Substantial	Corporate risk score 16
Capital Programme	20	4	Planned	Substantial	Corporate risk score 16
<i>Addition - Waste Services</i>	15	4	Planned	Substantial	Corporate risk score 16
<i>Addition Housing Standards</i>	10	4	Planned	Limited	Corporate risk score 16
Major Projects	15			Consultancy	Corporate risk score 16

Audit title	Allocated Audit days	Proposed Audit Quarter.	Status	Previous Assurance Level	Risk
Asset Register	-15		Cancelled	Substantial	Key Financial System. Deferred to 2022/23 at request of service area.
Performance & Appraisal	-15		Cancelled	Substantial	No significant risk in CRR raised
Compliance with Bribery Act 2010	-10		Cancelled	New Area	No significant risk in CRR raised. Incorporated into Fraud and Corruption audit.
ICT Wireless Networks	-15		Cancelled	New Area	No significant risk in CRR raised
Democratic Services	-15		Cancelled	Substantial	No significant risk in CRR raised
Play Areas	-10		Cancelled	Substantial	No significant risk in CRR raised
Amenity Property & Land	-15		Cancelled	Limited	No significant risk in CRR raised. This area will be added to the property audit going forward.
Care & Repair	-7		Cancelled	Substantial	No significant risk in CRR raised
Total	286				

Appendix 2 – Follow Up

			Completed			Outstanding			Total Outstanding	Not Yet Due for implementation		
Audit Ref	Audit Area	Assurance Level	High	Medium	Low	High	Medium	Low		High	Medium	Low
2016/17 Internal Audit Reviews												
16/17.4	Insurance	Substantial		5			5	1	6			
2017/18 Internal Audit Reviews												
17/18.3	Ethical Culture	Substantial			5			1	1			
17/18.11	Housing Strategy	Full		1	4				0			
17/18.6	Cost Reduction Programme	Substantial		3	3				0			
CO8	Asset Management	Substantial					5	1	6		1	
2018/19 Internal Audit Reviews												
CO7	Accounts Receivable	Full		4	3		6	1	7			
CO4	Benefits	Substantial	1	2					0			
18/19.6	CIL	Substantial	1	1	3		1	1	2			
18/19.12	Electoral Services	Full		1	5			1	1			
18/19.2	Legal Services	Substantial		1	2			6	6	1	3	
18/19.14	Waste & Recycling	Substantial					4	2	6			
18/19.1	Risk Management	Substantial		1	10		3	3	6			
18/19.7	Vehicle Fleet	Substantial		1			10	2	12			
18/19.17	Treasury Management	Substantial		1	4				0			
18/19.8	General Data Protection Regulations 2016 & Data Protection Act 2018	Substantial					3	10	13			

			Completed			Outstanding			Total Outstanding	Not Yet Due for implementation		
			High	Medium	Low	High	Medium	Low		High	Medium	Low
Audit Ref	Audit Area	Assurance Level										
2019/20 Internal Audit Reviews												
19/20.2	Anti-Fraud, Bribery & Corruption	Substantial	1				5	1	6			
19/20.1	Annual Governance Statement	Substantial			7		4	6	10			
19/20.8	Car Parking & Civil Enforcement	Substantial			1		4	6	10			1
19/20.5	Careline	Substantial	2				10	1	11			
19/20.7	Alive West Norfolk - Governance				4	1	1	4	6			
19/20.3	Whistleblowing Arrangements	Substantial						7	7			7
N/A	Personal Identifier & Financial Relationship	Substantial					2		2			
18/19.3	Child Protection	Substantial		1	3	1		4	5			
19/20.4	Council Offices & Sites	Substantial							0		3	5
19/20.5	ICT - Cyber Security	Substantial							0		7	8
19/20.12	Planning Support	Substantial						3	3		3	3
19/20	Economic Development	Substantial									6	
19/20.6	ICT - Document Management	Substantial			5		2	2	4		1	2
2020/21 Internal Audit Reviews												
20/21.11	CCTV	Substantial							0			2
20/21.6	Contract Management	Substantial							0		2	2
20/21.12	Planning Control	Limited		1	2				0		1	1
20/21.16	Planning Enforcement	Substantial							0			7
TOTALS			5	23	61	2	65	63	130	0	24	42