

Agenda Item No:	10	
Committee:	<b>CORPORATE GOVERNANCE</b>	
Date:	<b>17th August 2020</b>	
Report Title:	<b>INTERNAL AUDIT OUTTURN AND QUALITY ASSURANCE REVIEW</b>	

## 1 Purpose / Summary

To provide the Corporate Governance Committee with an overview of the work undertaken by Internal Audit during 2019/20;

To provide the Audit Managers annual opinion on the system of internal control;

To consider the effectiveness of Internal Audit.

## 2 Key issues

- Public Sector Internal Audit Standards (PSIAS) have been issued to set the standard of internal auditing in the public sector. These standards are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015. CIPFA has provided an additional Application Note for Local Government (LGAN). Both documents constitute 'proper practices' in internal control as per the Accounts & Audit Regulations 2015.
- 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.
- The PSIAS 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
- The LGAN states that the Internal Audit Annual Report should include both the annual audit opinion, and the results of the continuous quality assurance and improvement program (QAIP).
- Regulation 5 (1) of the Accounts and Audit Regulations 2015 requires that relevant authorities must 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. A continuous quality assurance and improvement programme is undertaken so that the Council continues to provide an effective Internal Audit service.

### 3 Recommendations

- To note the outturn for Internal Audit for 2019/20, which states all Audits were completed as per the agreed Internal Audit Plan, and their associated assurance ratings.
- To note the Internal Audit Manager's opinion on the "adequacy" of Internal Control.
- To note the positive outcome of the independent quality assurance review.

<b>Wards Affected</b>	All
<b>Forward Plan Reference</b>	Not applicable
<b>Portfolio Holder(s)</b>	Not applicable
<b>Report Originator(s)</b>	Peter Catchpole- Corporate Director & Chief Finance Officer Kathy Woodward - Shared Internal Audit Manager
<b>Contact Officer(s)</b>	Peter Catchpole - Corporate Director & Chief Finance Officer Kathy Woodward- Shared Internal Audit Manager Anna Goodall – Head of Governance & Legal Services
<b>Background Paper(s)</b>	Internal Audit Plan 2019/20 Public Sector Internal Audit Standards CIPFA PSIAS Local Government Application Note 2019 Accounts and Audit Regulations 2015 CIPFA Statement on the role of the Head of Internal Audit

## **4 Background / introduction**

- 4.1 This report includes details, for the year 2019/20, of: -
- the coverage provided by Internal Audit; and
  - the Internal Audit Manager's opinion on levels of internal control across the Council.
  - the independent review of the effectiveness of the Internal Audit team.
- 4.2 The Internal Audit Manager has a professional reporting line to the Corporate Director & Chief Finance Officer, the responsible officer for duties under Section 151 of the Local Government Act 1972. The Internal Audit service provides assurance to Senior Management regarding levels of control for systems for which they are responsible.
- 4.3 Full details of the Internal Audit objectives are contained within the Internal Audit Charter approved by the Corporate Governance Committee (minute CGC38/17).

## **5 Internal Audit Outturn**

- 5.1 The annual internal audit plan is formulated in advance, following an assessment of risks inherent to services and systems of the Council based on internal audit and management knowledge at that time. During the period that follows, changes in the control environment may occur, for example: -
- introduction of new legislation/regulations,
  - changes of staff,
  - changes in software,
  - changes in procedures and processes,
  - changes in service demand,
- 5.2 The team has remained within budget and achieved a satisfactory level of planned and proactive unplanned work. The impact that resource changes and demand have upon achievement of the annual audit plan varies each year. This is the third full year of the shared internal audit management arrangements and also the third year of the shared auditing arrangements for Anglia Revenues Partnership (ARP) functions.
- 5.3 Following the resignation of the full time Internal Auditor in July 2019 temporary arrangements were in place to provide support for delivery of the internal audit plan. The temporary resource has been sourced from the Borough Council of King's Lynn and West Norfolk (BCKLWN) who had been providing approximately 15 hours of cover each week. Due to some staffing issues at Kings Lynn, this has not been constant throughout the period.
- 5.4 Throughout March 2020 when the Covid-19 pandemic was becoming apparent and the need for the organisation to mobilise itself into emergency response mode, the role of Internal Audit changed significantly.
- 5.5 April is normally a time when the previous year's audits (19/20) are finalised and all remaining reports are issued. When the Council went into emergency response mode the standard audit work was 'paused' as a result of changing priorities of the Council and a number of final reports have not been issued. Most of this work is now being picked up again, but it will be some time before we are fully operational as most of our work depends on the cooperation of other departments, who have had a significant change in their normal roles.
- 5.6 In addition to the department being unable to complete a proportion of work relating to last year there have also been other redeployments within the team throughout April, May

and June, to assist the organisation to deliver its Covid-19 business grants service. The recruitment to the vacant post has also been paused. These changes have resulted in a loss of resource in quarter 1 and 2 of 2020/21 from the team but will be looked into in future progress reports and a revised Internal Audit Plan.

- 5.7 The team still managed to deliver the majority of the operational Audits detailed in the plan, with 6 being carried over to the new financial year. . This year an additional audit was conducted on ARP Performance Monitoring. This is illustrated in Appendix A which lists the systems audited in the financial year and the number of recommendation made for each audit. Appendix B highlights the status of recommendations agreed from those audits.
- 5.8 Audit work includes testing of system controls, and this has not highlighted any significant fraud. Any errors or irregularities that have been identified have been resolved during the course of the audit and/or management action plans have been agreed with the system owners including timescales for improvement appropriate to the level of risk. These action plans will be followed up by Internal Audit with management.
- 5.9 A key performance objective of the team was to complete 'fundamental' audits, which are considered key financial systems. Historically these systems had continued to operate to a satisfactory standard, and were evaluated as having substantial assurance. 5 'fundamental' audits required review in the 2019/20 plan with the remainder being reviewed over a three year cycle.

## **6 Annual Internal Audit opinion on the internal control environment**

- 6.1 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 which is included as a part of this agenda pack.
- 6.2 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.
- 6.3 As part of the Annual Governance Statement evaluation, an assurance mapping exercise takes place which documents and establishes additional sources of assurance.
- 6.4 The annual audit opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control
- 6.5 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.
- 6.6 This has been further supported by the external auditor (Ernst & Young) "Annual Audit and Inspection Letter 2018/19", as reported to Corporate Governance Committee at minute CGC17/19, which states an unqualified opinion that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 6.7 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.

## **7 Review of the effectiveness of Internal Audit**

- 7.1 Regulation 5 (1) of the Accounts and Audit Regulations 2015 requires that relevant authorities must 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.
- 7.2 DCLG guidance on the Accounts and Audit Regulations cites proper practice in relation to internal audit in local authorities:
- All Public Sector Internal Audit Teams are required to comply with the Public Sector Internal Audit Standards (PSIAS) issued by the Institute of Internal Auditors (IIA). CIPFA issued a mandatory 'Local Government Application Note' (LGAN) intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
  - CIPFA has also issued guidance on the 'role of the Head of Internal Audit in Local Government' which supplemented the Code.
- 7.3 The Internal Audit Charter, Risk Based Internal Audit Plan and delivery, is based on these professional standards. Performance monitoring is also supplemented through frequent interaction between the Internal Audit Manager and the Corporate Director & Chief Finance Officer. Corporate Governance Committee have also increased their oversight of the delivery of the Audit Plan through quarterly monitoring of performance including number of audits completed and number of and rating of recommendations.
- 7.4 An independent review of effectiveness has been completed by an external assessment process completed in November 2017 by a CIPFA assessor. This is based on the latest guidance and professional standards and took the form of a self – assessment checklist covering all areas of the Public Sector Internal Audit Standards, Local Government Application Note and CIPFA's Role on the Head of Internal Audit. Corporate Governance Committee considered this report on 4<sup>th</sup> December 2017.
- 7.5 The external assessment concluded that 'the self-assessment is a good reflection of the Internal Audit Service's practices and its contribution to the organisation. It is also our opinion that the service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and to the Local Government Application Note.' This is the highest accolade that can be given from the assessor.
- 7.6 The next external assessment will take place in 2023 and in the intervening years the Corporate Director will continue to complete an independent review of effectiveness on an annual basis.

## **8 Effect on Corporate Objectives**

- 8.1 The delivery of an effective Internal Audit Service is a key factor in maintaining an adequate level of internal control in the Council, and contributes to a Quality Organisation.

## **9 Conclusions**

- 9.1 The Council has maintained an effective Internal Audit team which demonstrates a commitment to comply with the Public Sector Internal Audit Standards, and the CIPFA Local Government Application Note, as standards of good quality.
- 9.2 The Internal Audit team has provided audit and assurance work throughout the year to form an opinion on the effectiveness of internal control. There are no serious concerns highlighted and this assurance will form evidence for the production of the Annual Governance Statement, which accompanies the Statement of Accounts.

## Appendix A: Audits completed

Audit	Overall opinion	Recommendations			Recommendation Theme
		High	Medium	Low	
Customer Services – Contact Centre	Substantial	-	-	-	
Transport Commercial and Fleet Management	Substantial	-	-	-	
Licensing – Animal Welfare	Adequate	-	3	1	Procedural, Financial, Reputational
Cash Collection – Web Payments	Substantial	-	-	-	
GIS / LLPG	Substantial	-	1	-	Business Continuity
Corporate Finance – Budgetary Control	Substantial	-	1	-	Reporting
Licences – Other	Limited	2	1	-	Procedural – Registration and Communication
Cemetery Income	Adequate	1	2	1	Financial Procedures, Business Continuity
Property – Building Security	Substantial	-	3		Building Access, Policy
Contract Monitoring – Freedom Leisure	Adequate	-	4	2	Procedural, Reporting
ICT – Cloud Storage	Substantial	-	-	-	
ICT - Security and Network Controls	Substantial	-	-	-	
ICT – Disaster Recovery	Substantial	-	-	-	

Corporate Assurance – Risk Management	Substantial	-	7	9	Policy, Communication and Training
Commercial Waste	Adequate	-	1	2	Procedural, Financial
Post, Print and Scanning	Substantial	-	1	1	Efficiency / Income Generation
Emergency Planning	Substantial	-	-	1	Policy
ARP Performance Management	Work undertaken by West Suffolk as a piece of audit added value work.				
Corporate Assurance – Information and Data Management (GDPR and DPA)	Substantial	-	4	8	Policy, Communication and Training
Payroll	Substantial	-	-	-	
Anglia Revenues Partnership – Enforcement	Substantial	-	2	1	Communication Channels, Reconciliations
<i>Business Rates</i>	<i>Adequate</i>	-	7	6	
<i>Council Tax</i>	<i>Adequate</i>	-	8	3	
<i>Overpayments</i>	<i>Adequate</i>	-	3	3	
<i>Housing Benefits</i>	<i>Adequate</i>	-	10	6	
Trading Operations Estates	Adequate		3	-	Transparency, Policy and Process
Trading Operations - Markets	Substantial	-	-	-	

Audits in *italics* have been undertaken by other Councils and reviewed by Fenland District Council Audit Manager as part of the Quality Assurance process. The recommendations relate to the partnership as a whole and will not be reported upon in quarterly progress reports.

An assurance rating is applied, when a system or process is reviewed, which reflects the effectiveness of the control environment.

The text below is an indication of the different assurance ratings used:

Assurance	Description
Full	There is a sound system of control designed to proactively manage risks to objectives.
Substantial	There is a sound system of control, with further opportunity to improve controls which mitigate minor risks.
Adequate	There is a sound system of control, with further opportunity to improve controls which mitigate moderate risks.
Limited	There are risks without effective controls, which put the objectives at risk.
None	There are significant risks without effective controls, which put the objectives at risk. Fraud and/or error are likely to exist.

## Appendix B – Recommendation progress 2019/20

2019-20 Recommendations	HIGH	MEDIUM	LOW
<b>Total number of recommendations made</b>	<b>3</b>	<b>33</b>	<b>26</b>
Number of recommendations completed	3	9	12
Number of recommendations outstanding (not due)	0	19	13
<b>Number of recommendations overdue</b>	<b>0</b>	<b>0</b>	<b>0</b>

- This table does not include the recommendations made in relation to the ARP audits, conducted by partner authorities as they are reported to their respective authorities.
- As a result of the coronavirus pandemic and shifting organisation priorities from March 2020, the timeframe for completion of recommendations has been extended and any recommendations that would have been categorised as overdue in that period will be followed up later in the year.

## Appendix C: Summary of Internal Audit Effectiveness

					Compliance		
		Cat	Category of checklist	Comments	C	P	N
	Mission of Internal Audit	1	To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.	Audit Charter	C		
	Definition of Internal Auditing	2	Definition of Internal Auditing	Audit Charter	C		
Core Principals	The Core Principals are based on conformance with the Code of Ethics (Integrity, Seven Principles of Public Life)	3.1	Demonstrates integrity	Declaration of Interests	C		
		3.2	Demonstrates Competence and due professional care	Qualification	C		
		3.3	Is objective and free from undue influence	Reporting Lines	C		
		3.4	Aligns with the strategies, objectives, and risks of the organisation	Audit Plan	C		
		3.5	Is appropriately positioned and adequately resourced	Audit Plan	C		
		3.6	Demonstrates quality and continuous improvement	Progress Reports	C		
		3.7	Communicates effectively	Progress Reports	C		
		3.8	Provides risk-based assurance	Audit Plan	C		
		3.9	Is insightful, proactive, and future-focused	Audit Plan	C		
		3.10	Promotes organisational improvement	Audit Plan	C		
Code of Ethics		4.1	Integrity	QA review	C		
		4.2	Objectivity	QA Review	C		
		4.3	Confidentiality	QA Review	C		
		4.4	Competency	QA Review	C		
		4.5	Seven Principals of Public Life	QA Review	C		
Attribute	These address the characteristics of organisations and parties performing internal audit activities	5.1	1000 Purpose, Authority and Responsibility	External validation	C		
		5.2	1100 Independence and Objectivity	External validation	C		
		5.3	1200 Proficiency and Due Professional Care	External validation	C		
		5.4	1300 Quality Assurance and Improvement Programme	External validation	C		
Performance	These describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.	6.1	2000 Managing the Internal Audit Activity	Audit Manual	C		
		6.2	2100 Nature of Work	Audit Manual	C		
		6.3	2200 Engagement Planning	Audit Manual	C		
		6.4	2300 Performing the Engagement	Audit Manual	C		
		6.5	2400 Communicating Results	Audit Manual	C		
		6.6	2500 Monitoring Progress	Audit Manual	C		
		6.7	2600 Communicating the Acceptance of Risks	Audit Manual	C		
					28		

C = Conforms: P = Partial : N = Not conforming