


Agenda Item No:	5	
Committee:	Audit and Risk Management	
Date:	19 July 2021	
Report Title:	Internal Audit Outturn and Quality Assurance Review 2020/21	

1 Purpose / Summary

To provide the Audit and Risk Management Committee with an overview of the work undertaken by Internal Audit during 2020/21;

To provide the Audit Manager's 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 2020/21, which highlights the Audits that were completed as per the agreed Internal Audit Plan, and their associated assurance ratings and also the additional assurances gained from other sources of work completed in house and externally to support the Annual Audit Opinion.
- To note the Internal Audit Manager’s opinion on the “adequacy” of Internal Control, Risk Management and Governance processes.
- To note the positive outcome of the independent quality assurance review.

Wards Affected	All
Forward Plan Reference	Not applicable
Portfolio Holder(s)	Not applicable
Report Originator(s)	Peter Catchpole- Corporate Director & Chief Finance Officer Kathy Woodward - Internal Audit Manager
Contact Officer(s)	Peter Catchpole - Corporate Director & Chief Finance Officer Kathy Woodward- Internal Audit Manager
Background Paper(s)	Internal Audit Plan 2020/21 Internal Audit Progress Report Q3 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 CIPFA Guidance – Head of Internal Audit Annual Opinions: Addressing the Risk of a Limitation of Scope

4 Background / introduction

- 4.1 This report includes details, for the year 2020/21, 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 latest Internal Audit Charter approved by Audit and Risk Management Committee on 21 June 2021 (previously version approved by Corporate Governance Committee at minute CGC 38/17).

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 Corporate Governance Committee approved the Internal Audit Plan 2020-21 on 17th August 2020. This audit plan covered the last 6 months of the year as a result of reduced capacity and redeployments required by the council to enable emergency response to the Covid-19 pandemic.
- 5.3 Since the approval of the audit plan, there have been further periods of national lockdown and further redeployments have taken place to assist the council in dealing with its emergency response to the pandemic, which have affected the delivery of the Audit Plan.
- 5.4 The team has remained within budget, due to a vacant post and has 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 and this year significant challenges were faced by the team as a result of the Coronavirus pandemic. This is the fourth full year of the shared internal audit management arrangements and also the fourth year of the shared auditing arrangements for Anglia Revenues Partnership (ARP) functions.
- 5.5 A restructure proposal of the Internal Audit team was approved by Staff Committee in September 2020 to address the resource issues of the team. The proposals were:
- Reinstatement of the Internal Audit Manager to a full-time post.
 - Appointment of a full-time apprentice internal auditor.
 - Retention of the existing part time internal auditor.

- 5.6 The recruitment of the apprentice internal auditor was successful, and the appointment commenced in February 2021. The S113 and Memorandum of Understanding between Fenland District Council and King's Lynn and West Norfolk borough Council has been terminated and the Internal Audit Manager reverted to full time from 31 May 2021.
- 5.7 As the 'normal' work of the internal audit function on delivering the audit plan only commenced in September 2020 and subsequent periods of lockdown followed, the number of standard Audits completed was lower than in previous years, as most of our work depends on the cooperation of other departments, who have had a significant change in their normal roles.
- 5.8 In order to compensate for the reduction in planned audit work further assurances have been obtained by the team as follows:
- Overview and Scrutiny ARP review group
 - Care and Repair Disabled Facilities Grants declaration
 - National Fraud Initiative work – National Exercise, Council Tax and Elections Exercise and Covid-19 Business Grants Exercise
 - Grant Funded Projects Group
 - Risk Management Group
 - My Fenland project group overview
 - Covid-19 Emergency Project Group overview
 - Decarbonisation Funding Bid review and grant award declaration
 - Business Grants – Post Payment Assurance planning and fraud risk assessments
 - Follow up reviews on outstanding audit recommendations
- 5.9 In addition to the additional assurance work completed by the team, external organisations have been able to support the Internal Audit Opinion, by providing assurance of the following areas:
- DVLA audit of FDC for abandoned car searches on the Web Enabled System (WEE) - **Green** assurance received.
 - Independent Designated Person Port Marine Safety Code audit – **96.12%** conformity with achievable measures.
 - ICT – Public Service Network (PSN) compliance certificate – **fully compliant**.
 - Homeless Persons – Rough Sleeper monitoring. MHCLG and LGA Delivery and impact evaluation.
 - Business Grants – Post Payment Assurance reporting – **No issues identified in sample testing conducted by BEIS.**
 - Covid -19 / Business Grants – Weekly, Monthly and Quarterly reporting to Government on the impacts of the pandemic on the financial position of the Council.
- 5.10 In addition to the department undertaking additional and non-standard audit work, there have also been other redeployments within the team throughout the year. The Internal Audit Team has been an integral part of the Business Grant Team, ensuring compliance with legislation, transparency, fairness and accessibility of grants awarded, reviewing and monitoring the eligibility of applicants to safeguard against fraud and error, and providing data to the National Fraud Initiative for the national response to safeguarding public funds.
- 5.11 Appendix A lists the systems audited in the financial year and the number of recommendations made for each audit. Appendix B highlights the status of recommendations agreed from previous years audits.

- 5.12 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.
- 5.13 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. 4 'fundamental' audits required review in the 2020/21 plan, one has been postponed until 2021/22 due to the pressures facing the finance team as a result of the pandemic, 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.
- 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 identified in the CIPFA additional Guidance issued to Internal Audit Managers in December 2020, additional sources of assurance have been used to form the annual audit opinion, without needing to issue a limitation of scope in any areas. Appendix C highlights the additional work undertaken to support the Internal Audit Managers Annual Audit Opinion.
- 6.4 As part of the Annual Governance Statement evaluation, an assurance mapping exercise takes place which documents and establishes additional sources of assurance.
- 6.5 The annual audit opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control
- 6.6 Based on the work that Internal Audit has performed, the Internal Audit Manager's opinion for 2020/21 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.
- 6.7 This has been further supported by the external auditor (Ernst & Young) "Annual Audit and Inspection Letter 2019/20", as reported to Corporate Governance Committee at minute CGC13/20, which states an unqualified opinion that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 6.8 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 MHCLG 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. Audit and Risk Management 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 4th 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. The results for 2020/21 can be seen at Appendix C.

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	
Payroll (19/20)	Substantial	-	-	-	
Anglia Revenues Partnership – Enforcement (19/20)	Substantial	-	2-	1	Communication Channels, Reconciliations
<i>Business Rates (19/20)</i>	Adequate	-	7	6	
<i>Council Tax (19/20)</i>	Adequate	-	8	3	
<i>Overpayments (19/20)</i>	Adequate	-	3	3	
<i>Housing Benefits (19/20)</i>	Adequate	-	10	6	
Trading Operations Estates (19/20)	Adequate	-	3	-	Transparency, Policy and Process
Trading Operations – Markets (19/20)	Substantial	-	-	-	
Licences – Environmental 19/20)	Adequate	-	5	2	Procedural, Financial, Guidance
Street Scene Enforcement	Adequate	-	-	-	Service Delivery

CCTV	Adequate	1	2	-	SLA and reporting requirements
Waste and Recycling Credits	Adequate	-	1	1	Reporting and Contract monitoring
Income and Debt Management	Ongoing				
Safeguarding	Ongoing				
Anglia Revenues Partnership – Enforcement	Substantial	-	-	-	
<i>Business Rates</i>	<i>Adequate</i>	-			<i>Results confirmed as Adequate – Final report still to be issued</i>
<i>Council Tax</i>	<i>Adequate</i>	-			<i>Results confirmed as Adequate – Final report still to be issued</i>
<i>Overpayments</i>	<i>Adequate</i>	-			<i>Results confirmed as Adequate – Final report still to be issued</i>
<i>Housing Benefits</i>	<i>Adequate</i>	-			<i>Results confirmed as Adequate – Final report still to be issued</i>

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
Total number of recommendations made	3	33	26
Number of recommendations completed	3	26	21
Number of recommendations outstanding (not due)	0	7	5
Number of recommendations overdue	0	0	0

- 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 – Additional Assurance to support the Annual Audit Opinion

CIPFA have issued guidance to Local Authorities: Head of Internal Audit Annual Opinion: Addressing the Risk of a Limitation of Scope, to directly address the impact of Covid-19 and whether audit teams will be able to undertake sufficient work to gain assurance during 2020/21.

The key requirements that heads of internal audit (HIA), leadership teams and audit committees should follow are set out below.

1. The HIA should plan to obtain sufficient assurance to support the annual opinion, taking into account both internal audit work and other sources of assurance. The reliance the HIA is placing on other sources of assurance should be disclosed in the overall opinion.
2. The HIA, leadership team and audit committee should review and discuss internal audit capacity where there are concerns and develop an action plan to mitigate the risk.
3. The HIA should make best use of their audit resources to maximise assurance.
4. Where the HIA considers that a limitation of scope is likely, the leadership team and audit committee should be advised promptly. The HIA should set out the likely consequences assessed and advise on remedial action to avoid a limitation of scope.
5. The HIA annual report should contain a clear explanation of any limitation of scope along with its causes and plans to address the situation going forward.
6. Where the HIA annual report and opinion contains a limitation of scope the authority should state this in the annual governance statement.

The factors impacting on the availability of assurance from internal audit and other sources of assurance include:

- the changing risks and impacts on the organisation itself
- whether key governance, risk management and internal control arrangements have deteriorated or been maintained
- changes to the resource base of internal audit, whether staff or budget related demands on internal audit for any advisory or non-audit support that will not directly support the HIA opinion
- operational disruptions that impact on the access of internal auditors to key staff, information or systems resulting in greater inefficiency and reduced outputs

Where an organisation has adopted a comprehensive assurance framework then this may be used by the HIA to support the opinion.

Appendix C – Additional Assurance to support the Annual Audit Opinion

In addition to the information detailed above, the annual audit opinion must also demonstrate compliance with the PSIAS. Performance Standard 2100 - Nature of Work details how the work of Internal Audit can contribute to the Annual Audit Opinion:

- 2110 Governance – Assess and make recommendations to improve organisations governance processes
- 2120 Risk Management – Evaluate the effectiveness and contribute to the improvement of Risk Management processes
- 2130 Control – Assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement

Considering all the factors detailed above, the following measures have been incorporated to provide additional assurance to support the Internal Audit Manager's Annual Audit Opinion in 2020/21:

- Governance
 - Internal Audit presence/oversight at all major project groups, including Corporate Investment Board, My Fenland, Covid-19 Emergency response, Management Team etc.
 - Review of lessons learnt from these projects.
 - Assurance Framework Mapping – seeking further assurances by using themes outlined in the assurance map (Appendix B).
- Risk Management
 - Internal Audit Manger continued membership of the Risk Management group, providing oversight and assurance.
 - Follow up review of Risk Management Audit ensuring actions to improve process have been implemented.
 - Raising awareness of risk management issues at project groups and operational / strategic level support.
 - Other sources of assurance to be incorporated include, update of Health and Safety risk assessments for ensuring Covid-19 secure workplace and practices, updated home working risk assessments, continued update of Business Continuity plans.
- Control
 - Streamlining audit processes to increase capacity.
 - Narrowing the focus of audit scopes to examine only key risks.
 - Prioritising assurance and advisory work that supports the annual audit opinion.
 - Increase focus on follow up reviews form 2018/19 and 2019/20 to ensure controls and actions have been implemented and are effective.
 - Providing support to the Council's response to Covid-19 through participating in Business Grant Group scheme development and providing oversight to the implementation of these schemes.
 - Post payment assurance work on Business Grants.
 - Other assurances provided form external providers.

Appendix D: 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 Principles 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