

PETERLEE TOWN COUNCIL MEETING

28 June 2021

INTERNAL AUDIT ANNUAL REPORT 2020/21



REPORT OF THE HEAD OF INTERNAL AUDIT

Purpose of the Report

1. The purpose of this report is to present the Annual Internal Audit Report for 2020/21, which is attached as Appendix 2.

Background

2. This report fulfils the requirements of Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application note for the Chief Internal Auditor and Corporate Fraud Manager to deliver an annual audit opinion and report that can be used by the Committee to inform its Annual Governance Statement.
3. The Annual Opinion makes conclusions on the overall adequacy and effectiveness of the Council's Framework of governance, risk management and control.
4. Based on work undertaken the Chief Internal Auditor and Corporate Fraud Manager is able to provide a Substantial overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2020/21.
5. This Substantial opinion identifies that there is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk
6. Delivery of the audit plan had initially been impacted following the onset of the coronavirus pandemic. This resulted in our agreeing to a new way of working with the Council whereby the hardcopy documentation that was required to carry out the audit reviews was collated by the Finance Officer and collected from the Council's premises by the auditor who then carried out the review remotely, working from home, in accordance with the Government guidance. Where required, additional supporting information was obtained electronically by email and meetings were held remotely via telephone.
7. Working in this way, the Chief Internal Auditor and Corporate Fraud Manager is able to provide a Substantial overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2020/21.
8. There are no adverse implications for the Annual Governance Statement arising from any of the work that Internal Audit has undertaken in 2020/21. All of the risks raised within Internal Audit reports have been accepted. Internal Audit's recommendations, or alternative proposed actions made by Management in response to the risk issues, have been agreed to be implemented. Full implementation of the agreed actions will realise the benefits of the control improvements detailed in each individual audit report. Internal Audit will follow up

the implementation of its recommendations, or any agreed alternative actions, with the relevant responsible officers, as soon as is practically possible, after the target implementation dates. Progress on the implementation of audit recommendations will be reported through to this Committee in future reports on Internal Audit work.

Recommendation

9. Members consider the content of the Annual Internal Audit Report and the overall 'Substantial' opinion provided on the adequacy and effectiveness of the Council's control environment for 2020/21.

Tracy Henderson, Interim Audit Manager, Tel: 03000 269668

Appendix 1: Risks and Implications

Finance

The broad programme of work undertaken by Internal Audit supports the Council in maintaining safe and efficient arrangements for the proper administration of its financial affairs.

Staffing

None

Risk

None

Equality and Diversity / Public Sector Equality Duty

None

Accommodation

None

Crime and Disorder

None

Human Rights

None

Consultation

None

Procurement

None

Disability Issues

None

Legal Implications

None

Other Risks

Control risks identified / considered in relation to reviews undertaken



Internal Audit Annual Report 2020-2021

LIST OF CONTENTS

	PAGE
Introduction	2
Service Provided and Audit Methodology	3
Types of Audit work carried out	3
Audit Quality Assurance Framework	4
Summary of work carried out	5
Key Areas for Opinion	5
Audit Opinion Statement	6

Appendices

Appendix A	Performance Indicators
Appendix B	Key Advice and Consultancy Work Undertaken
Appendix C	Assurance Opinion Methodology
Appendix D	Summary of Assurance Work

Introduction

1. This report summarises work carried out by Durham County Council Internal Audit and Risk Service during 2020/21, as part of the three year Service Level Agreement covering the provision of Internal Audit Services up to 31 March 2022.
2. The report provides assurance on the effectiveness of the Council's control environment, risk management and corporate governance arrangements in place during the year.
3. The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires all relevant bodies to, "make arrangements for the proper administration of their financial affairs and ensure that one of its officers has responsibility for the administration of those affairs".
4. The Accounts and Audit Regulations 2015 require those bodies to "undertake an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control".
5. All Internal Audit work carried out in 2020/21 was in accordance with proper internal audit practices as described within the Public Sector Internal Audit Standards (PSIAS).
6. This report fulfils the requirements of PSIAS and the CIPFA Local Government Application Note for the Chief Internal Auditor and Corporate Fraud Manager to deliver an annual audit opinion and a report that can be used by the Committee to inform its Annual Governance Statement.
7. The report sets out:
 - The annual internal audit opinion on the overall adequacy and effectiveness of the governance, risk and control framework (the control environment).
 - A summary of the audit work carried out from which the opinion is derived.
 - Details of the quality assurance arrangements in place during 2020/21.

Service Provided and Audit Methodology

8. Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
9. The primary objective of Internal Audit is to provide an independent and objective opinion on the Council's control environment which is comprised of the systems of governance, risk management and internal control.
10. The audit strategy to provide independent assurance, is summarised as follows:
 - To carry out planned assurance reviews of the effectiveness of the management of operational risks in all key service activities/systems.
 - To carry out assurance reviews of the management of strategic risks where the effective management of risk is heavily dependent on identified controls.
 - To carry out annual reviews of key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial and non-financial systems.
 - To use a Control Risk Assessment (CRA) methodology to focus audit resources on providing assurance on key controls where there is little or no other independent assurance on their adequacy or effectiveness.

Types of Audit Work Carried Out in 2020/21

Assurance Reviews

11. Assurance reviews are those incorporated into annual audit plans where the CRA methodology is to be applied. They also include service requests to provide assurance on more specific risks within a particular service activity.
12. On completion of each assurance review an opinion on the adequacy and / or the effectiveness of the control framework in place is provided to inform the annual audit opinion.
13. The audit methodology for arriving at audit opinions on individual assurance reviews is attached at **Appendix C**.

Advice and Consultancy Work

14. In addition to planned assurance reviews, provision may also be made in annual audit plans to support service managers by undertaking advice and consultancy type work. The outcomes from this work can also provide assurance on the control framework even though an assurance opinion is not provided on the completion of this work.

Counter Fraud Work

15. Provision is made within audit reviews undertaken to support service managers at an operational level to mitigate the strategic risk of fraud and corruption. Control weaknesses identified when fraud is suspected or proven also impacts on the overall opinion on the adequacy and effectiveness of the internal control system.

Audit Quality Assurance framework

16. The Internal Audit performance and quality framework reflects the requirements of the PSIAS.
17. Key elements of the quality assurance framework operating during 2020/21 include:
 - Independent quality reviews undertaken by Audit Managers as a matter of routine and periodically by the Chief Internal Auditor and Corporate Fraud Manager to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained.
 - Key contacts, determined by the Council, agree the Terms of Reference for each audit review and are able to challenge the findings and content of draft reports prior to them being finalised.
18. A summary of performance against agreed indicators is given in **Appendix A**.
19. As at the 31 March 2021, the % of planned work completed indicated that the service achieved 100% of the audit plan against a 90% target.
20. The Accounts and Audit Regulations 2015 requires that an annual review of the effectiveness of Internal Audit is carried out. The outcome of the review is reported to Committee.
21. The County Council's Audit Committee at its meeting on 29 June 2020 received an evaluation, in the form of a self-assessment carried out by the Chief Internal Auditor and Corporate Fraud Manager, with regards to compliance with the key elements of the PSIAS that considered the following matters:
 - The structure and resourcing level, including qualifications and experience of the audit team;
 - The extent of conformance with the PSIAS in producing quality work;
 - Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis;
 - The overall performance of the Internal Audit team.
22. For 2019/20, this demonstrated that the Section was conforming to the Code's requirements.
23. A self-assessment for 2020/21 is currently being undertaken against the PSIAS and whilst no issues have been identified at the time of writing this report, the final outcome of the review will be reported to County Council's Audit Committee at its meeting on 30 June 2021.

Summary of audit work carried out

Assurance Work

24. Our work programme for the year was determined by the approved Internal Audit Plan. The assurance opinion takes in account the individual opinions provided across all reviews undertaken in year, together with the most recent opinion for those activities not included in the plan in order to provide a better informed opinion on the entire control environment, a summary of which is attached at **Appendix D**.

Advice and Consultancy Work

25. All planned reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks. This evaluation and challenge supports the effective and efficient use of resources and VFM.
26. Through our advice and consultancy work we are able to add value pro-actively and reactively.
27. Reactive work involves responding to ad-hoc requests for advice and reviews added to the plan to address new or emerging risks. It also includes responding to potential fraud or irregularities and we ensure that all such incidents are properly investigated and that appropriate action is taken by managers, whether or not fraud or malpractice is proven.
28. A summary of key advice and consultancy work completed during the year is attached at **Appendix B**

Key Areas for Opinion

29. The key areas of the control environment where assurance is required to inform our overall opinion are:
- Financial Management
 - Risk Management
 - Corporate Governance
30. Assurance has been provided on some aspects of key financial systems during the year. Reviews undertaken considered creditors, debtors, income collection and banking, payroll, main accounting and budgetary control.
31. Assurance reviews incorporate a consideration of the Council's Risk and Governance arrangements within each activity inspected.
32. The Council's Strategic Risk Management arrangements were reviewed in year and confirmed that the previous audit recommendations made in the Internal Audit Year 2019/20 have been implemented.

Audit Opinion Statement

33. The Council has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.
34. Internal Audit is required to provide an opinion on the Council's risk management, control and governance process.
35. In giving this opinion it should be noted that assurance can never be absolute and therefore only reasonable assurance can be provided that there are no major weaknesses in these processes.
36. In assessing the level of assurance to be given, we based our opinion on:
 - All audits undertaken during the year
 - Follow up action on audit recommendations
 - Any significant recommendations not accepted by management and the consequent risk
 - Limitations which may have been placed on the scope of the internal audit
 - Reliability of other sources of assurance when determining the scope of audit reviews.
37. Delivery of the audit plan had initially been impacted following the onset of the coronavirus pandemic. This resulted in our agreeing to a new way of working with the Council whereby the hardcopy documentation that was required to carry out the audit reviews was collated by the Finance Officer and collected from the Council's premises by the auditor who then carried out the review remotely, working from home, in accordance with the Government guidance. Where required, additional supporting information was obtained electronically by email and meetings were held remotely via telephone.
38. We are satisfied, however, that sufficient Internal Audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's system of internal control.
39. Based on work undertaken, and in particular that relating to core financial systems, the Chief Internal Auditor and Corporate Fraud Manager is able to provide a Substantial overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2020/21.
40. This Substantial opinion identifies that there is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk
41. Where Internal Audit has identified areas for improvement, recommendations are made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within target dates is high, in many cases there is a time gap between a control weakness being reported and the date determined by management for when the action can practically and realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion. Work is ongoing with management with regard to timely and realistic implementation dates for actions being agreed.

PERFORMANCE INDICATORS

Efficiency		Objective: To provide maximum assurance to inform the annual audit opinion	
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Q4 Actual
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage as at 31 March 2020.	90% annually	100% (6 out of 6 reviews complete)
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Quarterly)	100% (3 out of 3 reports issued) 3 days average
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response Average time taken is also reported for information	95% (Quarterly)	100% (3 out of 3 reports issued) 1 day average
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	100% (6 out of 6 TOR's issued)
Quality		Objective: To ensure that the service is effective and adding value	
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	100% (19 out of 19 recommendations accepted)
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (3 out of 5) where 1 is poor and 5 is very good Average score is also reported for information	100% (Quarterly)	100% (3 out of 3 returns) Average score 4.90
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	100% (3 returns from 3 surveys issued in 2020/21)

ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2020/2021

Whilst no formal advice and consultancy reviews have been undertaken for the Council during 2020/21, Internal Audit has maintained its links with the Council's key officers to discuss ongoing matters on an ad hoc / informal basis.

ASSURANCE OPINION METHODOLOGY

Findings

Individual findings are assessed on their impact and likelihood based on the assessment rationale in the tables below:

Impact Rating	Assessment Rationale
Critical	A finding that could have a:
	Critical impact on operational performance (Significant disruption to service delivery)
	Critical monetary or financial statement impact (In excess of 5% of service income or expenditure budget)
	Critical breach in laws and regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime)
	Critical impact on the reputation of the Council (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
	Critical impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)
Major	A finding that could have a:
	Major impact on operational performance (Disruption to service delivery)
	Major monetary or financial statement impact (1-5% of service income or expenditure budget)
	Major breach in laws, regulations or internal policies and procedures (non compliance will have major impact on operational performance, monetary or financial statement impact or reputation of the service)
	Major impact on the reputation of the service within the Council and/or complaints from service users
Minor	A finding that could have a:
	Minor impact on operational performance (Very little or no disruption to service delivery)
	Minor monetary or financial statement impact (less than 1% of service income or expenditure budget)
	Minor breach in internal policies and procedures (non compliance will have very little or no impact on operational performance, monetary or financial statement impact or reputation of the service)
Likelihood	Assessment criteria
Probable	Highly likely that the event will occur (>50% chance of occurring)
Possible	Reasonable likelihood that the event will occur (10% - 50% chance of occurring)
Unlikely	The event is not expected to occur (<10% chance of occurring)

Overall Finding Rating

This grid is used to determine the overall finding rating.

LIKELIHOOD			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	M
	Minor	Major	Critical
	IMPACT		

Priority of our recommendations

We define the priority of our recommendations arising from each overall finding as follows;

High	Action required, that is considered imperative , to improve the control environment so that objectives are not exposed to unacceptable risks through lack of or weaknesses in critical or key controls.
Medium	Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls.
Best Practice	The issue merits attention and its implementation will enhance the control environment.

Overall Assurance Opinion

Based upon the ratings of findings and recommendations arising during the audit as summarised in the risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

Substantial Assurance	There is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk.
Limited Assurance	There are weaknesses in key areas in the system of control, which expose objectives to unacceptable levels of risk.

				APPENDIX D
SUMMARY OF ASSURANCE WORK CARRIED OUT				
Audit Area				Latest Opinion
Core Financial Systems				2020/21
Creditors				
Debtors				
Income collection and banking				
Payroll				
Main accounting and budgetary control				
Risk Management				2020/21
General Data Protection Regulations (GDPR)				2020/21
Cemetery				2018/19
Pavilion - Income Collection and Banking				2018/19
Leisure Gardens				2020/21
Parks (note follow up review in 2019/20 identified all actions implemented)				2018/19
Activities and Events				2017/18
Shotton Hall Bar and Catering				2017/18
Capital				2017/18
Overall Opinion				
Assurance Opinion	Substantial	Moderate	Limited	
Key				