

AGENDA NO.

**REPORT TO
AUDIT &
GOVERNANCE
COMMITTEE**

28 JUNE 2021

**REPORT OF
DIRECTOR OF
FINANCE,
DEVELOPMENT AND
BUSINESS SERVICES**

INTERNAL AUDIT ANNUAL REPORT

SUMMARY

This is the annual report of the Head of Internal Audit as required by the Public Sector Internal Audit Standards (PSIAS). The report includes the Audit & Risk Manager's annual opinion on the overall adequacy and effectiveness of the Council's internal control and governance processes. As such it forms an integral part of the formulation of the Council's Annual Governance Statement.

This report encompasses the reporting requirements specified in Standard 2450 of the PSIAS.

RECOMMENDATIONS

It is recommended that:-

1. That the Audit Committee receives the Annual Internal Audit Report for 2020/21 incorporating the Head of Internal Audit's opinion on the Council's control environment (paragraph 1.9) and the performance of the Internal Audit Section.

DETAIL

Background

1. Internal Audit is an independent appraisal function established by the Council to objectively examine, evaluate and report on the adequacy of internal controls. This role ensures that there is proper economic, efficient and effective use of resources. It also ensures that the Council has adequate accounting records and control systems.
2. This is the first annual report prepared following the change of emphasis from service/system based audits to the review of controls. As such the format of the report has changed from previous years.

Current Position

3. The attached report shows the current position in respect of the progress against the 2020/2021 planned work and the results of the work that has been undertaken.
4. The Authority has been through some unprecedented times during the COVID-19 crisis. This has invariably had an impact on the completion of the planned audit work. The audit opinion has been prepared based on the completed testing to date. A minimum level of coverage has been set for each planning period and for the 12 months June 2020 to May 2021 the minimum level of coverage was 322 controls, at the end of May 2021 testing had been completed on 360 controls therefore, the minimum level of coverage has been achieved to enable an overall opinion to be given.
5. The projected resources required for the next 12 months shows a positive balance and there are sufficient resources available to complete the current planned work and to also enable the service to increase coverage further as part of the continued development of the new process.

FINANCIAL AND LEGAL IMPLICATIONS

None

RISK ASSESSMENT

The results of the work undertaken by Internal Audit can be used by managers to assess their risk exposure, recommendations are made where there is perceived to be unacceptable risk.

COMMUNITY STRATEGY IMPLICATIONS

None

CONSULTATION

This report has been submitted to the Corporate Governance Group

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Background Papers:

Internal Audit Charter
Counter Fraud Strategy

Ward(s) and Ward Councillors:

None

Property Implications:

None

INTERNAL AUDIT ANNUAL REPORT & OPINION STATEMENTS

2020/21

1.0 EXECUTIVE SUMMARY

Introduction

- 1.1** Under the Accounts and Audit Regulations 2015, the Council is required to “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”. For the purposes of the 2018/19 opinion the standards for proper practices for internal audit are laid down in the CIPFA Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (PSIAS).
- 1.2** The relevant body must conduct a review, at least once a year, of the effectiveness of its system of internal control. Following the review the Council must approve an Annual Governance Statement prepared in accordance with proper practices. The opinions given in this report provides independent and objective assurance on the overall adequacy and effectiveness of the Council’s system of internal control.
- 1.3** It is management’s responsibility to establish and maintain appropriate risk management processes, internal control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising management that these arrangements are in place and operating properly.

Quality Assurance and Improvement Programme

- 1.4** The Quality Assurance and Improvement Programme (QAIP) required by the PSIAS has been maintained during the year.

Planned Coverage and Output

- 1.5** The work of Internal Audit is agreed on a quarterly basis and approved by members at each meeting. Best practice requires that audit resources should target those areas that represent the greatest risk to the Council, to support this principle more frequent testing is undertaken on the areas that have the greatest impact in terms of managing risk within the council.
- 1.6** The planning process for audit work is much more fluid then in the past making a comparison of planned work against actual less relevant. In order to manage delivery to enable an overall opinion to be presented, minimum levels of coverage are established which are aligned with the risk assessment. Any planned work not completed in the original period is rolled forward to the next and prioritised ensuring all planned work is completed.

Measure	Target	Performance
Portfolio Coverage (Minimum)	322	360

Recommendations Made

- 1.7 Management continues to respond positively to audit reports and recommendations, with positive action taken to remedy any internal control weaknesses highlighted.
- 1.8 The current position regarding recommendations is as follows:

Status	Low	Medium	High	Critical	Total
Active	1	4	0	0	5
Implemented	0	0	1	0	1

Overall Assurance

- 1.9 As the Head of Internal Audit, I am required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. 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. In assessing the level of assurance to be given, I based my opinion on:

- The written reports on all internal audit work completed during the course of the year and the subsequent audit opinions;
- Any follow up exercises undertaken in respect of previous years' internal audit work;
- The proportion of Stockton on Tees Borough Council's audit need that has been covered within this period;
- Any limitations which may have been placed on the scope of Internal Audit. (There have been no operational constraints placed upon Internal Audit, apart from agreed budgetary control provisions).

Opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework

From the testing undertaken by the Internal Audit Section over the course of the year I am satisfied that sufficient assurance work has been undertaken to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Council's control environment to support the preparation of the Annual Governance Statement.

It is my opinion that the Council continues to have an appropriate, and overall, an effective system of internal control, upon which it can place reasonable reliance to deliver the Council's objectives, and detect fraud and other malpractice within a reasonable period of time.

Where weaknesses have been identified through internal audit work, we have worked with management to agree appropriate corrective actions and a timescale for introduction.

Statement of conformance with the PSIAS

A self-assessment of compliance with the PSIAS has been undertaken using the checklist included in the CIPFA Local Government Application Note to the PSIAS. The checklist runs to 35 pages and contains over 300 conformance targets.

This has been validated in 2017/2018 by an independent external assessor in-line with the requirements to undertake such a review at least once every 5 years.

The conclusion of the review is that the service conforms with the requirements of the standard.

The areas of non-compliance identified in the self-assessment and validated by the external review are as follows:-

- Assignments for on-going assurance engagements should be rotated periodically, this is not always possible given the size of the team and some areas that require technical expertise such as ICT. Audits are rotated wherever practical. This is mitigated by the code of conduct signed by auditors.**
- Organisational independence expects the Audit and Risk manager to report to an organisational level equal to or higher than corporate management team. For line management purposes the Audit & Risk Manager reports to the Procurement and Governance Manager however this is mitigated by having a secondary reporting line to the Director of Finance & Business Services and other senior management and the Audit Committee as required.**

Many of the compliance targets relate to consulting engagements. As the Internal Audit Section does not undertake any such engagements, the answers to these questions have to be “no”.

2 AUDIT RESULTS

- 2.1** The opinion given is supported by the results of testing completed during the previous 12 months.
- 2.2** An analysis of results against each strategic risk is shown below. The majority of controls are rated Green with small numbers shown as either Amber or Red.

Results of Audit Testing for the period:		June 2020		to		May 2021		Controls Tested:
		Very Low	Low	Medium	High	Very High		
275	Financially sustainable and value for money	1	25	14	13	4	65	
		0	4	0	1	3		
		0	0	0	0	0		
279	Strong leadership and governance	0	15	47	19	10	96	
		0	1	3	0	0		
		1	0	0	0	0		
290	Dedicated and resourceful employees	2	10	10	0	0	25	
		0	0	1	2	0		
		0	0	0	0	0		
282	Education and skills development	0	7	5	3	0	17	
		0	0	0	2	0		
		0	0	0	0	0		
287	A growing economy	0	0	2	0	0	2	
		0	0	0	0	0		
		0	0	0	0	0		
288	Job creation and increased employment	0	0	0	1	0	1	
		0	0	0	0	0		
		0	0	0	0	0		
278	People are supported and protected from harm	0	4	24	17	23	88	
		0	0	6	11	3		
		0	0	0	0	0		
280	People live healthy lives	0	1	0	6	0	9	
		0	0	0	2	0		
		0	0	0	0	0		
281	Cohesive and safe communities	1	2	5	1	0	11	
		0	0	1	0	0		
		0	0	1	0	0		
284	Great places to live and visit	0	5	15	3	0	31	
		0	1	4	0	0		
		0	0	3	0	0		
285	Clean and green spaces	0	1	5	0	0	6	
		0	0	0	0	0		

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		0	0	0	0	0	
286	Rich cultural experiences	0	3	2	0	0	5
		0	0	0	0	0	
		0	0	0	0	0	

2.3 To further demonstrate the adequacy of controls the results are also analysed by governance theme. This analysis also supports the overall opinion on the adequacy of the control environment as a whole, although there is an indication that despite original decisions made being accurate controls around monitoring of those decisions may need to be strengthened. Cash Handling testing has been limited throughout the year as there is only a very limited number of cash transactions being undertaken. The results of the National Fraud Initiative exercise are in the process of being analysed and reported at the current time and fraud related testing will be reported during the next reporting period.

Results of Audit Testing for the period:		June 2020		to		May 2021		
		Very Low	Low	Medium	High	Very High	Controls Tested:	
1. Accuracy of Decision Making	Red	0	0	0	0	0	46	
	Amber	0	1	4	0	3		
	Green	1	5	20	9	2		
2. Monitoring of Decisions	Red	0	0	4	0	0	14	
	Amber	0	0	1	1	0		
	Green	0	3	5	0	0		
3. Information Governance	Red	0	0	0	0	0	37	
	Amber	0	0	1	2	0		
	Green	0	12	20	2	0		
4. Finance	Red	0	0	0	0	0	33	
	Amber	0	0	0	1	0		
	Green	0	2	8	7	15		
5. HR - Payments	Red	0	0	0	0	0	9	
	Amber	0	2	0	0	0		
	Green	0	1	3	3	0		
6. HR - Health & Safety	Red	0	0	0	0	0	3	
	Amber	0	0	0	0	0		
	Green	0	0	2	1	0		
7. HR - Management	Red	0	0	0	0	0	13	
	Amber	0	0	0	0	0		
	Green	0	7	2	1	3		
8. Recruitment	Red	0	0	0	0	0	1	
	Amber	0	0	0	0	0		

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	Green	0	0	1	0	0	
9. HR - Training/Qualifications/Clearances	Red	0	0	0	0	0	26
	Amber	0	0	5	5	0	
	Green	0	2	14	0	0	
10. Accuracy of Payments	Red	1	0	0	0	0	19
	Amber	0	0	2	0	3	
	Green	2	7	4	0	0	
11. Income - Charging	Red	0	0	0	0	0	13
	Amber	0	0	0	0	0	
	Green	0	11	0	2	0	
12. Income - Payments	Red	0	0	0	0	0	7
	Amber	0	0	0	0	0	
	Green	0	4	1	2	0	
13. Cash Handling	Red	0	0	0	0	0	0
	Amber	0	0	0	0	0	
	Green	0	0	0	0	0	
14. Procurement/Sourcing	Red	0	0	0	0	0	12
	Amber	0	1	0	0	0	
	Green	0	2	7	2	0	
15. Physical Assets/Locations	Red	0	0	0	0	0	27
	Amber	0	0	0	0	0	
	Green	0	4	16	7	0	
16. Fraud	Red	0	0	0	0	0	0
	Amber	0	0	0	0	0	
	Green	0	0	0	0	0	
17. Business Continuity	Red	0	0	0	0	0	16
	Amber	0	0	0	2	0	
	Green	0	0	7	7	0	
18. Procedures	Red	0	0	0	0	0	20
	Amber	0	0	1	6	0	
	Green	0	6	2	3	2	
19. Performance Management	Red	0	0	0	0	0	24
	Amber	0	2	1	0	0	
	Green	0	1	4	7	9	
20. ICT Infrastructure	Red	0	0	0	0	0	21
	Amber	0	0	0	0	0	
	Green	0	4	6	9	2	
21. Handling of Requests/Incident Response	Red	0	0	0	0	0	6
	Amber	0	0	0	0	0	
	Green	1	1	3	1	0	

2.4 Counter Fraud

The Counter Fraud Strategy is currently being revised and presented to this committee in November 2021. The actions included in the action plan have been implemented.

The National Fraud Initiative (NFI) has been undertaken during the year, the results are currently being examined and will be the subject of a further report in November 2021.

3 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

3.1 Internal Audit is defined in the PSIAS as:-

“Internal auditing is an independent, objective and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

Adherence to the PSIAS ensures that Internal Audit complies with this definition.

3.2 In addition to the performance information shown below the following is evidence demonstrating Internal Audit’s compliance with the PSIAS:-

- Independence/no interference – There has been no interference during the year that would require the escalation processes to be invoked.
- Access to records – The service has been provided access to all records/personnel required to undertake the work in the plan.
- Director of Finance, Development and Business Services’ operational responsibility – Appropriate arrangements have been put in place to allow an objective opinion of the other operational services for which the Director of Finance, Development and Business Services has responsibility.
- Staff skills mix – An appropriate mix of staff has been in place throughout the year as defined in the audit competency framework.
- Staff training – Training has been given to staff as required. Staff have also completed a minimum of 20 hours CPD.
- Code of Conduct for Auditors – All auditors have signed up to an audit code of conduct and there is no evidence that this has not been complied with.

Performance Indicators

3.3 The PSIAS are unequivocal in that a QAIP must include both internal and external assessments: internal assessments are both ongoing and periodical and external assessments at least once every five years.

3.4 An independent external peer review was last undertaken to assess the effectiveness of internal audit and compliance with the new standards in 2017/2018. The review concluded:-

- The Internal Audit service complies fully with all key requirements of the Standards, and overall the level of compliance is very high.
- On the basis of the assessment and supporting evidence the Internal Audit service is shown to be well managed. It provides a good standard of service covering all key aspects of its remit and is well regarded and effectively utilised by senior management.
- No significant issues have been identified by the assessment process. The opportunities for improvement will improve service delivery and effectiveness, but they do not in themselves represent a material risk to the Internal Audit service or its ability to deliver the audit programme.

3.5 The results of the performance measures are shown in the balanced scorecard below.

Quality, Assurance & Improvement Process

Period Covered	June 2020	to	May 2021
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Stewardship (Coverage)		
Measure	Target	Performance
Adequate Resources (Next 12 Months)	60	256
Portfolio Coverage (Period)	322	360
Presentation of Annual Report (Annual)	June	June
Presentation of Activity Report	Qtrly	Qtly

Stakeholders		
Measure	Target	Performance
Reports Issued	Qtrly	Qtrly
Fraud Strategy Review	31/03/2021	Sep 21
Client Satisfaction	TBC	
Recommendation Implementation	TBC	

Process		
Measure	Target	Performance
Self assessment against standards (Annual)	March	March
External Assessment (Every 5 Years)	31/03/2023	N/A
Staff Meetings Held (Period)	26	29
Up to Date Audit Manual	31/03/2021	February

People		
Measure	Target	Performance
Productivity (Period)	75%	76.1%
Training (Per Financial Year)	20	26.5
Code of Conduct (Annual)	100%	100%
Appraisals (Annual)	100%	100%