AGENDA NO.

**REPORT TO
AUDIT &
GOVERNANCE
COMMITTEE**

31 MAY 2022

**REPORT OF AUDIT
AND RISK MANAGER**

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 2021/22 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.

Current Position

2. The attached report shows the current position in respect of the progress against the 2021/2022 planned work and the results of the work that has been undertaken.

3. 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 May 2021 to April 2022 the minimum level of coverage was 331 controls, at the end of April 2022 testing had been completed on 334 controls therefore, the minimum level of coverage has been achieved to enable an overall opinion to be given.

4. 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. The service will be carrying a vacancy for a period of time and we intend to undertake some data analytics work which will account for the surplus.

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

Big plans, bright future

INTERNAL AUDIT ANNUAL REPORT & OPINION STATEMENTS

2021/22

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, see section 3.

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 have been 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)	331	334

Recommendations Made

1.7 Management continues to respond positively to audit recommendations, with positive action taken to remedy any internal control weaknesses highlighted. Members can also take assurance from the relatively low number of recommendations being made.

1.8 The current position regarding recommendations is as follows:

Status	Low	Medium	High	Critical	Total
Active	0	7	4	0	11
Implemented	3	1	1	0	5
Not Implemented	0	1	0	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 findings from all internal audit work and the subsequent ratings;
- Any follow up exercises undertaken;
- 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 Assistant Director Procurement and Governance however this is mitigated by having a secondary reporting line to the Director of Finance, Development & Regeneration and other senior management and the Audit Committee as required as outlined in the Audit Charter.**

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   **Summary by Risk** - 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. Further detail of the areas considered to be Red will be provided in the summary by theme.

Summary Risk Information		Summary of Completed Audit Work (Internal Controls)					
Risk	Assurance	Audit Findings (By Impact)					
			VL	L	M	H	VH
Financially sustainable and value for money	92%	R	0	0	0	0	0
		A	1	6	1	1	1
		G	2	38	16	8	2
Strong leadership and governance	90%	R	1	0	3	0	0
		A	0	5	6	1	1
		G	2	37	32	7	4
Dedicated and resourceful employees	92%	R	0	0	0	0	0
		A	0	2	1	1	0
		G	3	12	5	0	0
Education and skills development	78%	R	0	0	0	0	0
		A	0	3	0	2	0
		G	0	6	6	3	1
A growing economy	87%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	0	0	3	0	0
Job creation and increased employment	100%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	0	1	0	1	0
People are supported and protected from harm	91%	R	0	0	0	1	0
		A	0	0	8	5	0
		G	0	11	22	12	14
People live healthy lives	74%	R	0	0	0	1	0
		A	0	0	0	0	0
		G	0	1	0	7	0
Cohesive and safe communities	84%	R	0	0	0	0	0
		A	0	1	1	0	0
		G	1	2	6	1	0

Great places to live and visit	89%	R	0	0	1	0	0
		A	0	1	4	1	0
		G	1	9	18	1	0
Clean and green spaces	100%	R	0	0	0	0	0
		A	0	0	2	0	0
		G	0	2	1	0	0
Rich cultural experiences	82%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	0	1	3	0	0

2.3 **Summary by Theme** - 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. Areas where minor concerns have been noted (Red Controls) include; The need to finalise a Public Health Needs Assessment, Completion of information governance training & updated policies for a small element of welfare services.

Results of Audit Testing for the period:	May 2021	to	April 2022

		Very Low	Low	Medium	High	Very High	Controls Tested:
1. Accuracy of Decision Making	Red	0	0	0	1	0	41
	Amber	0	0	4	1	1	
	Green	1	3	10	10	10	
2. Monitoring of Decisions	Red	0	0	1	0	0	14
	Amber	0	0	1	1	0	
	Green	0	3	4	1	3	
3. Information Governance	Red	0	0	0	0	0	29
	Amber	0	2	1	1	0	
	Green	0	6	9	6	4	
4. Finance	Red	0	0	0	0	0	44
	Amber	0	1	1	1	0	
	Green	0	2	16	10	12	
5. HR - Payments	Red	0	0	0	0	0	4
	Amber	0	0	0	0	0	
	Green	0	0	1	3	0	
6. HR - Health & Safety	Red	0	0	0	0	0	6
	Amber	0	1	0	1	0	
	Green	0	0	4	0	0	
7. HR - Management	Red	0	0	0	0	0	6
	Amber	0	0	0	1	0	
	Green	0	2	0	0	3	

8. Recruitment	Red	0	0	0	0	0	2
	Amber	0	0	1	0	0	
	Green	0	1	0	0	0	
9. HR - Training/Qualifications/Clearances	Red	0	0	4	0	0	21
	Amber	0	1	2	1	0	
	Green	0	3	10	0	0	
10. Accuracy of Payments	Red	1	0	0	0	0	10
	Amber	0	0	0	0	1	
	Green	0	4	3	0	1	
11. Income - Charging	Red	0	0	0	0	0	4
	Amber	0	1	0	0	0	
	Green	0	1	0	2	0	
12. Income - Payments	Red	0	0	0	0	0	7
	Amber	1	1	0	0	0	
	Green	0	2	1	2	0	
13. Cash Handling	Red	0	0	0	0	0	3
	Amber	0	1	0	0	0	
	Green	0	1	0	0	0	
14. Procurement/Sourcing	Red	0	0	0	0	0	12
	Amber	0	1	0	0	0	
	Green	1	4	5	0	1	
15. Physical Assets/Locations	Red	0	0	0	0	0	26
	Amber	0	0	1	0	2	
	Green	0	6	9	5	3	
16. Fraud	Red	0	0	0	0	0	10
	Amber	0	3	0	0	0	
	Green	0	7	0	0	0	
17. Business Continuity	Red	0	0	0	0	0	13
	Amber	0	0	2	3	0	
	Green	0	3	3	1	1	
18. Procedures	Red	0	0	0	0	0	22
	Amber	0	0	1	0	0	
	Green	0	9	3	5	4	
19. Performance Management	Red	0	0	0	0	0	37
	Amber	0	1	2	0	3	
	Green	0	2	10	6	11	
20. ICT Infrastructure	Red	0	0	0	0	0	13
	Amber	0	0	0	0	0	
	Green	0	2	4	4	3	
21. Handling of Requests/Incident Response	Red	0	0	0	0	0	6
	Amber	0	0	0	0	0	
	Green	0	0	2	4	0	

2.4 **Overall Position** – This is the overall summary for all controls, including those tested in prior periods. Controls rated as Amber are controls which are considered overall to be effective, however some improvements could be made. The conclusion therefore is that 98% of controls were considered to be effective at the time of testing. Controls that required some improvement (Amber) represents 15% of this total and controls that were not meeting their objectives (Red) 2% of the total.

	Impact/Risk				
	Very Low	Low	Medium	High	Very High
Red	1	0	4	2	0
Amber	1	18	23	11	2
Green	9	121	112	40	22

2.5 Counter Fraud

The Counter Fraud Strategy was 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 have been processed through the year. Of the matches processed, 133 errors were identified, and no frauds identified. This provides additional assurance around processes in place for preventing fraud from occurring.

Row Labels	Sum of MATCHES	Sum of PROCESSED
Blue Badge	382	353
Concessionary Travel	615	614
Council Tax Reduction	1314	1064
Creditors	2475	2475
Grant Recipient	67	52
Housing Benefits	122	113
Payroll	53	49
Procurement	74	74
Resident Parking	2	
Pensions	22	22
Grand Total	**5126**	**4816**

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 Corporate Services' operational responsibility – Appropriate arrangements via an indirect reporting line to the Director of Finance, Development & Regeneration (S151) have been put in place to allow an objective opinion of the other operational services for which the Director of Corporate 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. The next external review will be undertaken during 2022/2023.

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 service has seen a number of changes over the recent past to improve its effectiveness. Over the coming year work will be undertaken to strengthen these processes further by making effective use of data analytics to further enhance our understanding of risk and increase our opportunities for more targeted sampling of potential problem areas and full dataset sampling.

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

Quality, Assurance & Improvement Process

Period Covered	May 2021	to	April 2022

Stewardship (Coverage)		
Measure	Target	Performance
Adequate Resources (Next 12 Months)	60	109
Portfolio Coverage (Period)	331	334
Presentation of Annual Report (Annual)	June	May
Presentation of Activity Report	Qtrly	Qtly

Stakeholders		
Measure	Target	Performance
Reports Issued	Qtrly	Qtrly
Fraud Strategy Review	31/03/2022	Nov 21
Client Satisfaction	TBC	
Recommendation Implementation	TBC	83%

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	42
Up to Date Audit Manual	31/03/2022	Feb 22

People		
Measure	Target	Performance
Productivity (Period)	75%	72.1%
Training (Per Financial Year)	20	27.1
Code of Conduct (Annual)	100%	100%
Appraisals (Annual)	100%	100%