

**AUDIT COMMITTEE
28 JULY 2021**

INTERNAL AUDIT ANNUAL REPORT AND OPINION

SUMMARY REPORT

Purpose of the Report

1. To provide Members with the annual report of the testing undertaken in the previous 12 months in accordance with Audit Services' role and terms of reference.

Summary

2. The report outlines progress to date on audit assignment work, consultancy/contingency activity and performance indicators.
3. The shared service was a new service beginning 1 April 2017 and brought together two teams from different organisations as well as a new approach to delivering the audit opinion.
4. In relation to Audit Services' performance a detailed report is provided with all agreed work completed.

Recommendation

5. It is recommended that the annual report of the results of testing during the previous 12 months and the overall opinion statement be noted.

Reasons

6. The recommendation is supported to provide the Audit Committee with evidence to reflect on the Council's governance arrangements.

**Andrew Barber
Audit & Risk Manager**

Background Papers

- (i) Internal Audit Charter
- (ii) Results of Audit Testing

S17 Crime and Disorder	Other than any special investigation work there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact and Climate Change	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Corporate Plan	There is no specific relevance to the Plan beyond a reflection on the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Information and Analysis

7. This is the first annual report following the change in approach to recording audit testing and as such is in a different format to previous annual reports.
8. The report should be considered in the context of fulfilling the function to monitor the adequacy and effectiveness of the Council's internal control environment and the Internal Audit service provided.
9. **Appendix 1** provides members with detailed feedback on the performance of the service.
10. As members are aware audit work is planned on a quarterly basis and is effectively a rolling programme of testing. Any work not completed at the end of the quarter is rolled forward into the next quarter. However, to ensure sufficient work is completed to be able to provide an overall opinion on the control environment a minimum level of coverage is identified. This takes into account the priority rating for each test. For the period July 2020 to June 2021 the minimum level of coverage has been calculated at 310, the actual number of controls tested was 356, meaning sufficient work has been completed to enable an overall opinion to be provided.
11. In line with good practice, at an appropriate time, Audit Services follow up with Managers progress on implementation of audit recommendations agreed in audit reports.

12. The Shared Service has also responded to routine requests from Groups for advice and guidance on operational matters.

Outcome of Consultation

13. There was no formal consultation undertaken in production of this report.

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)	310	356

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	2	7	1	0	10
Implemented	1	0	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 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 Darlington 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** To 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. 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.

Theme Summary

Theme	Assurance	Audit Findings (By Impact)					
			VL	L	M	H	VH
1. Accuracy of Decision Making	89%	R	0	0	0	0	0
		A	0	0	5	0	1
		G	1	11	14	9	4
2. Monitoring of Decisions	89%	R	0	0	0	0	0
		A	0	2	0	1	0
		G	0	6	7	0	0
3. Information Governance	94%	R	0	0	0	0	0
		A	0	2	4	0	0
		G	1	7	11	4	1
4. Finance	100%	R	0	0	0	0	0
		A	0	0	2	0	0
		G	1	2	6	6	2
5. HR - Payments	100%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	0	2	1	1	0
6. HR - Health & Safety	100%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	0	1	2	0	0
7. HR - Management	100%	R	0	1	0	0	0
		A	0	0	0	0	0
		G	1	5	1	1	0
8. Recruitment	88%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	0	2	1	0	0
9. HR - Training/Qualifications/Clearances	80%	R	0	0	1	0	0
		A	0	0	4	0	0
		G	0	6	6	3	0
10. Accuracy of Payments	95%	R	0	0	0	0	0
		A	0	2	0	0	0
		G	3	8	3	0	0
11. Income - Charging	100%	R	0	0	0	0	0
		A	0	1	0	0	0

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		G	0	4	0	1	0
12. Income - Payments	85%	R	0	0	0	0	0
		A	0	1	0	0	0
		G	0	4	1	1	0
13. Cash Handling	86%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	0	1	0	0	0
14. Procurement/Sourcing	91%	R	0	0	0	0	0
		A	0	1	2	0	0
		G	0	5	3	2	1
15. Physical Assets/Locations	95%	R	0	0	0	0	0
		A	0	2	2	0	0
		G	0	4	8	4	1
16. Fraud	100%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	0	1	0	0	0
17. Business Continuity	100%	R	0	0	0	0	0
		A	0	1	0	0	0
		G	0	2	6	5	0
18. Procedures	100%	R	0	0	0	0	0
		A	0	0	0	1	0
		G	0	6	3	1	1
19. Performance Management	93%	R	0	0	0	0	0
		A	0	1	1	0	0
		G	0	0	7	4	2
20. ICT Infrastructure	87%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	1	4	6	3	1
21. Handling of Requests/Incident Response	85%	R	0	0	0	0	0
		A	0	0	2	0	0
		G	2	3	1	1	0

2.3 Counter Fraud

The Counter Fraud Strategy has been revised and presented to this committee in October 2020. 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 later in the year.

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 July 2020 to June 2021

Stewardship (Coverage)		
Measure	Target	Performance
Adequate Resources (Next 12 Months)	60	256
Portfolio Coverage (Period)	310	356
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	Oct 20
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	33
Up to Date Audit Manual	31/03/2021	February

People		
Measure	Target	Performance
Productivity (Period)	75%	76.3%
Training (Per Financial Year)	20	24.8
Code of Conduct (Annual)	100%	100%
Appraisals (Annual)	100%	100%