

**AUDIT COMMITTEE
20 JULY 2022**

AUDIT SERVICES AUDIT WORK 2021/22 – ANNUAL REPORT

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.
Council Plan	Maintaining an appropriate oversight of risk & controls will help contribute to the delivery of the Council Plan Objectives
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

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 2021 to June 2022 the minimum level of coverage has been calculated at 325, the actual number of controls tested was 340, 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**

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.

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)	325	340

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	3	11	13	0	27
Implemented	2	1	1	0	4
Not Implemented	0	3	0	0	3

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.

Theme Summary

Theme	Assurance	Audit Findings (By Impact)					
			VL	L	M	H	VH
1. Accuracy of Decision Making	74%	R	0	0	0	0	0
		A	0	1	1	2	0
		G	1	11	21	11	5
2. Monitoring of Decisions	89%	R	0	0	0	0	0
		A	0	2	0	1	0
		G	0	7	11	1	0
3. Information Governance	82%	R	0	0	1	0	0
		A	0	1	2	0	0
		G	1	10	16	4	2
4. Finance	90%	R	0	0	0	0	0
		A	0	1	1	0	0
		G	1	4	10	5	2
5. HR - Payments	100%	R	0	0	0	0	0
		A	0	0	1	0	0
		G	0	2	0	1	0
6. HR - Health & Safety	100%	R	0	0	0	0	0
		A	0	0	1	1	0
		G	0	1	3	0	0
7. HR - Management	98%	R	0	1	0	0	0
		A	0	0	0	0	0
		G	1	7	1	0	2
8. Recruitment	100%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	0	2	1	0	0
9. HR - Training/Qualifications/Clearances	93%	R	0	0	9	0	0
		A	0	0	5	0	0
		G	0	7	7	3	0
10. Accuracy of Payments	87%	R	0	1	0	0	0
		A	0	2	0	0	0
		G	3	10	3	1	1
11. Income - Charging	94%	R	0	0	0	0	0
		A	0	1	0	0	0
		G	0	4	0	2	0

Internal Audit Annual Report and Opinion Statements 2021/2022

12. Income - Payments	93%	R	0	0	0	0	0
		A	0	1	0	0	0
		G	0	6	2	1	0
13. Cash Handling	86%	R	0	0	0	0	0
		A	0	1	0	0	0
		G	0	1	0	0	0
14. Procurement/Sourcing	95%	R	0	0	0	0	0
		A	0	0	2	0	0
		G	0	9	3	2	1
15. Physical Assets/Locations	87%	R	0	0	0	0	0
		A	0	2	2	1	0
		G	0	8	10	3	1
16. Fraud	100%	R	0	0	0	0	0
		A	0	4	0	0	0
		G	0	8	0	0	0
17. Business Continuity	87%	R	0	0	0	0	0
		A	0	2	1	0	0
		G	0	1	6	4	1
18. Procedures	100%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	0	6	5	3	1
19. Performance Management	93%	R	0	0	0	0	0
		A	0	2	0	0	0
		G	0	3	10	4	3
20. ICT Infrastructure	93%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	1	4	4	2	2
21. Handling of Requests/Incident Response	100%	R	0	0	0	0	0
		A	0	0	1	0	0
		G	2	4	3	1	0

2.3 Counter Fraud

The Counter Fraud Strategy has been revised and presented to this committee in October 2021. The actions included in the action plan have been implemented.

The National Fraud Initiative (NFI) has been undertaken during the year, the results continue to be examined, the table below shows the current progress, which is 74% of all matches returned have been reviewed. The overall position in respect of the matches that have been examined is that 5 errors have been identified with a value of £20,000 which is currently being recovered.

This provides another source of positive assurance around our controls to prevent fraud.

Internal Audit Annual Report and
Opinion Statements 2021/2022

Row Labels	Sum of MATCHES	Sum of PROCESSED
Blue Badge	345	345
Concessionary Travel	444	444
Council Tax Reduction	682	2
Creditors	1505	1505
Grant Recipient	38	21
Housing Benefits	63	45
Housing Right to Buy	8	
Housing Tenants	136	49
Housing Waiting List	80	
Payroll	34	34
Procurement	35	35
Grand Total	3370	2480

3 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

2.4 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.

2.5 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

2.6 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.

2.7 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,

**Internal Audit Annual Report and
Opinion Statements 2021/2022**

but they do not in themselves represent a material risk to the Internal Audit service or its ability to deliver the audit programme.

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

Quality, Assurance & Improvement Process

Period Covered	July 2021	to	June 2022
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Stewardship (Coverage)		
Measure	Target	Performance
Adequate Resources (Next 12 Months)	60	137
Portfolio Coverage (Period)	325	340
Presentation of Annual Report (Annual)	June	July
Presentation of Activity Report	Qtrly	Qtly

Stakeholders		
Measure	Target	Performance
Reports Issued	Qtrly	Qtrly
Fraud Strategy Review	31/03/2022	Oct 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	41
Up to Date Audit Manual	31/03/2021	February 22

People		
Measure	Target	Performance
Productivity (Period)	75%	70.6%
Training (Per Financial Year)	20	20.4
Code of Conduct (Annual)	100%	100%
Appraisals (Annual)	100%	100%