

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

25 July 2019

**Internal Audit Consortium 2018/19 Annual Report to North East
Derbyshire District Council**

Report of the Internal Audit Consortium Manager

This report is public

Purpose of the Report

The purpose of this report is to:

- Present a summary of the internal work undertaken during 2018/19 from which the opinion on the internal control environment is derived
- Provide an opinion on the overall adequacy and effectiveness of the Council's control environment including any qualifications to that opinion
- Draw attention to any issues that need to be considered for inclusion in the Annual Governance Statement
- Compare work actually undertaken with that which was planned and summarise performance
- Comment on compliance with the Public Sector Internal Audit Standards
- Confirm progress against the Internal Audit Consortium action plan that was developed following an external review of internal audit
- Comment on the results of the internal quality assurance programme
- Confirm the organisational independence of internal audit
- Review the performance of the Internal Audit Consortium against the current Internal Audit Charter

1 Report Details

1.1 Appendix 1 details the audit reports issued in respect of audits included in the 2018/19 internal audit plan. The appendix shows for each report the overall assurance level on the reliability of the internal controls. An additional column shows the opinion given at the last audit for information. The report assurance levels can be summarised as follows:

Assurance Level	Number of Reports 2018/19	Percentage 2018/19	Number of Reports 2017/18
Substantial	16	52%	14
Reasonable	13	42%	10
Limited	2	6%	0
Inadequate	0	0	0
N/A	0	0	1
Total	31	100%	25

1.2 A definition of the above control levels is shown in Appendix 1.

1.3 There were no issues relating to fraud arising from the reports detailed in Appendix 1.

1.4 The following table summarises the performance indicators for the Internal Audit Consortium as detailed in the Internal Audit Service Plan:

Description	2018/19		2019/20
	Plan	Actual	Plan
Cost per Audit Day	£287	£256	£285
Percentage Plan Completed (NEDDC)	96%	94%*	96%
Sickness Absence (Days per Employee)	8.0 (Corporate Trigger)	2.1	8.0
Customer Satisfaction Score (NEDDC)	85%	94%	85%
To issue internal audit reports within 10 days of the close out meeting. (NEDDC)	90%	100%	90%
Number/proportion of audits completed within time allocation (NEDDC)	80%	86%	80%
% 2018/19 Agreed recommendations implemented (NEDDC)	80%	79%	80%
Quarterly reporting to Audit Committee	100%	100%	100%

*The audits not completed are dog warden service and shared ownership (joint with RHL). These audits will be completed in 2019/20.

OPINION ON THE ADEQUACY AND EFFECTIVENESS OF THE CONTROL ENVIRONMENT

- 1.5 The Internal Audit Consortium Manager is responsible for the delivery of an annual audit opinion that can be used by the council to inform its governance system. The annual opinion concludes on the overall adequacy and effectiveness of the organisations framework of Governance, risk management and control.
- 1.6 In my opinion reasonable assurance can be provided on the overall adequacy and effectiveness of the council's framework for governance, risk management and control for the year ended 2018/19.
- 1.7 Assurance can never be absolute. In this context "reasonable assurance" means that arrangements are in place to manage key risks and to meet good governance principles, but there are a few areas where improvements are required.

Overall 94% of the areas audited received substantial or reasonable assurance demonstrating that there are effective systems of governance, risk management and control in place.

There were 2 Limited Assurance reports issued during the year (Health and Safety and Commercial and Industrial Property Rents). Management have agreed the recommendations and have either implemented them or actively working towards implementing them.

- 1.8 Members will also be aware of risk areas that are detailed on the Council's Strategic Risk Register i.e.:-

- Changes in Legislation/impact of Brexit
- Budget Challenges
- Operational service failure
- Staff morale and recruitment difficulties
- Delivery of major initiatives / projects
- Emergency Planning and Business Continuity Arrangements
- Cyber crime
- Engaging with local communities and partners
- Data protection failures
- Governance arrangements
- Safeguarding arrangements
- The local plan is found to be unsound
- Impact of HS2

- 1.9 These risks are all managed corporately and controls put in place to mitigate risk where possible.

ISSUES FOR INCLUSION IN THE ANNUAL GOVERNANCE STATEMENT

- 1.10 The internal control issues arising from audits completed in the year were reported to the Joint Head of Service (Finance and Resources) for consideration during the preparation of the Annual Governance Statement. In respect of the 2 limited reports (Health and Safety and Commercial and Industrial Property Rents) it was felt that sufficient progress had already been made to implement the recommendations negating the need to include these on the Annual Governance Statement as significant issues.

COMPARISON OF PLANNED WORK TO ACTUAL WORK UNDERTAKEN

- 1.11 The Internal Audit Plan for 2018/19 was approved by the Audit and Corporate Governance Scrutiny Committee on the 12th April 2018. Overall 94% of planned audits were completed and reported at the time of writing this report. The review of the dog warden service and the shared ownership scheme (joint audit with Rykneld Homes) have been deferred to 2019/20.
- 1.12 The plan would have been fully completed however the Consortium was without a Senior Auditor for 4 months and 2 Auditors also left during the year leaving another shortfall of a couple of months.

COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND OTHER QUALITY ASSURANCE RESULTS

- 1.13 During 2018/19 a self - assessment was undertaken to review compliance with the Public Sector Internal Audit Standards. The review confirmed that there were no significant areas of non compliance.
- 1.14 In October 2016 the internal audit consortium was subject to an external review to ensure compliance with the Public Sector Internal Audit Standards. The review concluded that the Consortium was compliant with and in places exceeded the requirements of the PSIAS but a number of recommendations were made to further enhance the service provided by the Consortium. The action plan has now been completed. An improvement spreadsheet has been introduced to record further improvement ideas.
- 1.15 It can also be confirmed that the internal audit activity is organisationally independent. Internal audit reports to the Joint Head of Service (Finance and Resources) but has a direct and unrestricted access to senior management and the Audit and Corporate Governance Scrutiny Committee.

1.16 Quality control procedures have been established within the internal audit consortium as follows:

- Individual Audit Reviews – Working papers and reports are all subject to independent review to ensure that the audit tests undertaken are appropriate, evidenced and the correct conclusions drawn. All reports are reviewed to ensure that they are consistent with working papers and in layout. Whilst these reviews may identify issues for clarification, the overall conclusion of the quality assurance checks is that work is being completed and documented thoroughly.
- Customer Satisfaction – A Customer Satisfaction Survey form is issued with each report. This form seeks the views of the recipient on how the audit was conducted, the report and recommendations made.
- Client Officer Views – A survey form has been issued to the client officer seeking her views on the overall performance of the Internal Audit Consortium for the year in achieving the objectives set out in the Internal Audit Charter.
- All staff have been provided with a copy of the Public Sector Internal Audit Standards and the Internal Audit manual has been updated to reflect the requirements of the standards and issued to all staff. A further review of the audit manual is scheduled for the summer of 2020.

1.17 The above quality control procedures have ensured conformance with the PSIAS.

1.18 Based on the customer satisfaction survey forms returned, the average score was 94% for customer satisfaction during 2018/19 (2017/18 result 94%).

1.19 The results of the Client Officer survey for NEDDC was a score of 94% (33 out of a maximum of 35 - for the seven areas reviewed this represented 5 'very good' scores and 2 'good' scores).

REVIEW OF PERFORMANCE OF THE INTERNAL AUDIT CONSORTIUM AGAINST THE CURRENT INTERNAL AUDIT CHARTER

1.20 The Audit Charter was last reported to and approved by the Audit and Corporate Governance Scrutiny Committee in July 2018. A further review of the Charter is scheduled for the summer of 2020.

1.21 Based on the information provided in this report on the completion of the 2018/19 internal audit plan, it is considered that the requirements of the Charter were met during the year.

2 Conclusions and Reasons for Recommendation

- 2.1 To present to Members the annual report for the Internal Audit Consortium in respect of North East Derbyshire District Council for 2018/19.
- 2.2 To ensure compliance with the Public Sector Internal Audit Standards.
- 2.3 To provide an opinion on the overall adequacy and effectiveness of the Council's control environment including any qualifications to that opinion.

3 Consultation and Equality Impact

- 3.1 Not Applicable.

4 Alternative Options and Reasons for Rejection

- 4.1 Not applicable.

5 Implications

5.1 Finance and Risk Implications

This report ensures that Members are aware of the work undertaken by internal audit during 2018/19 and the Internal Audit Consortium Manager's opinion on the adequacy and effectiveness of the systems in place at North East Derbyshire District Council.

5.2 Legal Implications including Data Protection

None.

5.3 Human Resources Implications

None

6 Recommendation

- 6.1 That the Internal Audit Consortium Annual Report for 2018/19 be noted.

7 Decision Information

Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: <i>BDC: Revenue - £75,000</i> <input type="checkbox"/> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/> <i>Capital - £250,000</i> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	No
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	All

8 Document Information

Appendix No	Title	
Appendix 1	Internal Audit Reports issued 2018/19	
Background Papers		
Report Author	Contact Number	
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Appendix 1

North East Derbyshire District Council – Internal Audit Reports Issued 2018/19

Ref	Report Title	Assurance Level 2018/19	Opinion Previous Audit
1	System Security	Substantial	Substantial
2	Land Charges	Substantial	Good
3	VAT	Reasonable	Good
4	Money Laundering	Reasonable	Satisfactory
5	Recruitment and Selection	Reasonable	Marginal
6	Property Services Compliance	Reasonable	New – N/A
7	Transport Follow up Part 2	Reasonable	Marginal
8	Health and Safety	Limited	Marginal
9	Cyber Security	Substantial	New - N/A
10	ICT Inventory	Reasonable	2008/09
11	Non Domestic Rates	Reasonable	Substantial
12	Leisure Services Operations	Substantial	Substantial
13	Commercial and Industrial Property Rents	Limited	Marginal
14	Council Tax	Substantial	Substantial
15	Pest Control	Reasonable	Satisfactory
16	FOI / Environmental Regulations	Substantial	Satisfactory
17	Payroll	Substantial	Substantial
18	Coney Green Business Centre	Reasonable	Marginal
19	Treasury Management	Substantial	Substantial
20	Expenses and Allowances	Reasonable	Good
21	Creditors	Substantial	Substantial
22	Commercial Waste	Substantial	Good
23	Housing Benefits	Substantial	Reasonable
24	Premises and Personal Licences	Reasonable	Satisfactory
25	Sundry Debtors	Substantial	Reasonable
26	Planning Fees	Substantial	Reasonable
27	Fly tipping (back office systems)	Reasonable	N/A
28	JVC Northwood Group Ltd	Substantial	New
29	Section 106	Reasonable	Satisfactory
30	Disaster Recovery	Substantial	Satisfactory
31	Insurance	Substantial	Good

Assurance Level	Definition
Substantial Assurance	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
Reasonable Assurance	The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed.
Limited Assurance	Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.
Inadequate Assurance	There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.