

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

30th September 2020

**Internal Audit Consortium 2019/20 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 audit work undertaken during 2019/20 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
- 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

IMPACT OF COVID 19

- 1.1 The advent of COVID 19 has had an impact on the timeliness of the completion of the 2019/20 internal audit plan. Whilst the majority of the plan has now been completed, some of these audits were completed in the new financial year and a few have been deferred.
- 1.2 Coronavirus has impacted on the plan for several reasons:-
- Internal Audit staff working from home - getting used to a new way of working

- Difficulties in obtaining information from staff that have been redeployed or are working from home. Still some paper records that require review.
- Other council staff concentrating their efforts on keeping essential services running, issuing grants to businesses etc. and so not being able to accommodate an audit or provide the information in a timely fashion.

1.3 Enough of the internal audit plan has been completed to be able to provide an audit opinion in respect of the 2019/20 financial year. However, the full impact on the audit plan for the 2020/21 financial year is not yet known but is likely to be fairly significant. The Committee will be provided with regular updates in respect of the completion of the 2020/21 plan.

SUMMARY OF WORK UNDERTAKEN

1.4 Appendix 1 details the audit reports issued in respect of audits included in the 2019/20 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 2019/20	Percentage 2019/20	Number of Reports 2018/19
Substantial	14	58%	16
Reasonable	10	42%	13
Limited	0	0	2
Inadequate	0	0	0
Total	24	100%	31

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

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

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

Description	2019/20		2020/21
	Plan	Actual	Plan
Cost per Audit Day	£285	£273	£294
Percentage Plan Completed (NEDDC)	96%	86%*	75%**
Sickness Absence (Days per Employee)	8.0 (Corporate Trigger)	3.8	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%
% 2019/20 Agreed recommendations implemented (NEDDC)	80%	Note 1	80%
Quarterly reporting to Audit Committee	100%	100%	100%

* As at the end of May 24/28 audits had been completed = 86%. This was partly due to 2 Auditors leaving the Consortium during the year and also the time commitment involved in respect of Auditors undertaking CIPFA apprenticeships. As outlined above, Covid -19 has also effected the productiveness of staff from the middle of March 2020. Three out of the four remaining audits will be completed in 2020/21 and it has been agreed with the section 151 officer that the main accounting and budgetary control audit will not take place as in 2020/21 an audit of the compliance to the new CIPFA Financial Management Code is scheduled.

** Although the target is usually 96%, due to COVID 19 the original 2020/21 plan will not be achievable. During the year the plan will be revisited, prioritised and reported to members.

Note 1 It has not been possible to measure performance against this PI as the officers needed to provide the information are heavily involved in keeping essential services running etc. in the light of the pandemic. A report detailing outstanding internal audit recommendations will be brought to Members later in the year.

OPINION ON THE ADEQUACY AND EFFECTIVENESS OF THE CONTROL ENVIRONMENT

- 1.8 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.

- 1.9 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 2019/20.
- 1.10 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.
- 1.11 Overall 100% of the areas audited received substantial or reasonable assurance demonstrating that there are effective systems of governance, risk management and control in place.
- 1.12 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
- 1.13 These risks are all managed corporately and controls put in place to mitigate risk where possible.

ISSUES FOR INCLUSION IN THE ANNUAL GOVERNANCE STATEMENT

- 1.14 The internal control issues arising from audits completed in the year have been reported to the Head of Service (Finance and Resources) for consideration during the preparation of the Annual Governance Statement. There were no issues directly arising from internal audit work to be included as significant issues.

COMPARISON OF PLANNED WORK TO ACTUAL WORK UNDERTAKEN

- 1.15 The Internal Audit Plan for 2019/20 was approved by the Audit and Corporate Governance Scrutiny Committee on the 18th April 2019. Overall 86% of planned audits were completed and reported at the time of writing this report. The review of elections is currently in progress

and IR35 and the use of consultants will be risk assessed in the light of COVID-19 as to when they will be completed. The main accounting/budgetary control audit will not take place, instead there will be a review of compliance with the new CIPFA Financial Management Code.

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

- 1.16 During May 2020 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.
- 1.17 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 and this is discussed at every team meeting.
- 1.18 It can also be confirmed that the internal audit activity is organisationally independent. Internal audit reports to the Director of Corporate Resources but has a direct and unrestricted access to senior management and the Audit and Corporate Governance Scrutiny Committee.
- 1.19 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 review and update of the internal audit manual took place in May 2020.
- 1.20 The above quality control procedures have ensured conformance with the PSIAS.
- 1.21 Based on the customer satisfaction survey forms returned, the average score was 94% for customer satisfaction during 2019/20 (2018/19 result 94%).
- 1.22 The results of the Client Officer survey for NEDDC was a score of 100% (35 out of a maximum of 35 - for the seven areas reviewed).

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

- 1.23 The Audit Charter was last reported to and approved by the Audit and Corporate Governance Scrutiny Committee in July 2018. The Charter was reviewed and updated in May 20 and will be presented to this Committee for approval in September 2020.
- 1.24 Based on the information provided in this report on the completion of the 2019/20 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 2019/20.
- 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 2019/20 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 2019/20 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 <input type="checkbox"/></i> <i>Capital - £150,000 <input type="checkbox"/></i> <i>NEDDC: Revenue - £100,000 <input type="checkbox"/></i> <i>Capital - £250,000 <input type="checkbox"/></i> <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 2019/20
Background Papers	
Report Author	Contact Number
Jenny Williams Internal Audit Consortium Manager	01246 217547

Appendix 1

North East Derbyshire District Council – Internal Audit Reports Issued 2019/20

Ref	Report Title	Assurance Level 2019/20	Opinion Previous Audit
1	Procurement	Reasonable	Reasonable
2	Cash and Bank	Substantial	Substantial
3	Business Continuity & Emergency Planning	Substantial	Reasonable
4	Corporate Targets & Local Indicators	Reasonable	Substantial
5	Safeguarding	Reasonable	Reasonable
6	National Non Domestic Rates	Substantial	Reasonable
7	Health & Safety	Substantial	Limited
8	Leisure Services	Substantial	Substantial
9	Payroll	Substantial	Substantial
10	Gifts and Hospitality	Reasonable	Satisfactory
11	Capital Accounting	Substantial	N/A
12	Taxi Licensing	Substantial	Reasonable
13	Treasury Management	Substantial	Substantial
14	Commercial & Industrial Property Rents	Reasonable	Limited
15	Domestic Waste Collection	Substantial	Good
16	Transformation Agenda	Reasonable	N/A
17	Network Security & Policies	Substantial	Good
18	Housing Benefits & Council Tax Subsidy	Substantial	Substantial
19	Members IT Equipment	Reasonable	N/A
20	Coney Green & Midway Business Centres Audit	Reasonable	Reasonable
21	Risk Management	Reasonable	Satisfactory
22	Sundry Debtors	Substantial	Substantial
23	Transport	Reasonable	Reasonable
24	Creditors	Substantial	Substantial

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.