

Report of the Chief Audit and Control Officer**INTERNAL AUDIT REVIEW 2018/19****1. Purpose of report**

To inform the Committee of the work of Internal Audit during 2018/19.

2. Detail

Under the Council's Constitution and as part of the overall governance arrangements, this Committee is responsible for monitoring the performance of Internal Audit.

In accordance with the Public Sector Internal Audit Standards, developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA), the Chief Audit and Control Officer must deliver an annual internal audit opinion and report that can be used by the Council to inform its Annual Governance Statement. The Internal Audit Annual Review Report for 2018/19 is included in the appendix.

The Council has to conduct, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of senior management who have responsibility for the development and maintenance of the governance environment, the Internal Audit Review Report and from comments made by the external auditors and other inspectorates.

The system of internal control has been reviewed. It is the opinion of the Chief Audit and Control Officer that the current internal control environment is satisfactory such as to maintain the adequacy of the governance framework. In terms of the audits completed, Internal Audit found that services are operating with appropriate internal controls. Where improvement actions have been agreed, progress is being made for their implementation. Where this is not the case, outstanding significant actions are reported to this Committee as part of the regular progress reports.

Overall, 97% of the revised planned audits were complete or awaiting finalisation at the year-end, which is above the target of 90%. All outstanding and deferred audits will now be completed as early as practicable in 2019/20.

Recommendation

The Committee is asked to NOTE the work of Internal Audit in 2018/19.

Background papers

Nil

APPENDIX**INTERNAL AUDIT ANNUAL REVIEW REPORT 2018/19****1. INTRODUCTION**

This annual review report provides a summary of Internal Audit activities for the year ended 31 March 2019.

The Accounts and Audit Regulations 2015 require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices. The United Kingdom Public Sector Internal Audit Standards (the 'Standards') and the CIPFA Local Government Application Note constitute proper practices so as to satisfy the requirements for larger relevant bodies as set out in the Regulations.

The Standards requires the Chief Audit and Control Officer, as the Council's designated 'chief audit executive', to deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement. The opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The report must incorporate:

- an annual opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework – i.e. the control environment;
- a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance providers); and
- a statement on conformance with the Standards and the results of the quality assurance and improvement programme.

The annual opinion should also be guided by the CIPFA Framework Delivering Good Governance in Local Government.

2. BACKGROUND TO THE OPINION

The Council has to conduct, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of senior management who have responsibility for the development and maintenance of the governance environment, the Internal Audit Review Report and from comments made by the external auditors and other review agencies and inspectorates.

A periodical review of the effectiveness of the system of internal audit helps to ensure that the opinion in this report may be relied upon as a key source of evidence in the Annual Governance Statement. The latest review found Internal Audit to be sufficiently compliant with the requirements of the Standards to ensure that the opinion given can be relied upon for assurance purposes.

There are no causes of concern with regard to the independence and objectivity of Internal Audit. Whilst reporting administratively to the Deputy Chief Executive (fulfilling the duties of Section 151 of the Local Government Act 1972), the Chief Audit and Control Officer also has:

- free and unrestricted access to the General Management Team.
- free and unrestricted access to the Governance, Audit and Standards Committee (the 'Committee') and attends all of its meetings
- the right to meet with the Chair of the Committee and/or the relevant Member Portfolio Holder to discuss any matters or concerns that have arisen from Internal Audit work.

3. AUDIT OPINION ON THE OVERALL ADEQUACY AND EFFECTIVENESS OF THE COUNCIL'S INTERNAL CONTROL ENVIRONMENT

The system of internal control has been reviewed.

It is the opinion of the Chief Audit and Control Officer that the current internal control environment is satisfactory such as to maintain the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

In terms of audits completed, Internal Audit found that services are carried out with the appropriate internal controls. Where improvement actions have been agreed, progress is being made for their implementation. Where this is not the case, any outstanding significant recommendation is reported to this Committee as part of the regular progress reports.

The opinion has been arrived at with due regards to the following:

- The level of coverage provided by Internal Audit was considered to be adequate.
- Work has been planned and performed so as to obtain sufficient information and explanation considered necessary to provide evidence to give reasonable assurance that the Council's control environment is operating effectively.
- The independence and objectivity of Internal Audit has not been impaired in fact or appearance; nor has the scope of its work been restricted in any way.
- Insight gained from interaction with senior management and this Committee.
- No adverse implications for the Annual Governance Statement have been identified from work undertaken by Internal Audit.

- The Internal Audit Plan 2018/19, as approved by this Committee on 26 March 2018 (and subsequently revised on 11 March 2019) was informed by the Chief Audit and Control Officer's own assessment of risk and materiality in addition to consultation with senior management to ensure it aligned to the Council's key risks and objectives.
- The following table summarises the outcomes of audit assignments completed in 2018/19, including those audits completed from the previous year's plan that were finalised in the year:

Audit Assignment	Status/ Completion		Assurance Opinion	Critical Risk Action	Significant Risk Action	Merits Attention Action
Financial Resilience #	Final Report	100%	Substantial	-	-	-
Benefits #	Final Report	100%	Reasonable	-	1	-
Asset Register	Final Report	100%	Substantial	-	-	-
Sundry Debtors	Final Report	100%	Reasonable	-	1	-
Creditors and Purchasing	Final Report	100%	Reasonable	-	-	2
Cash Receipting	Final Report	100%	Reasonable	-	-	4
NNDR	Final Report	100%	Substantial	-	-	1
Rents	Final Report	100%	Substantial	-	1	1
Treasury Management	Final Report	100%	Substantial	-	-	1
Council Tax	Final Report	100%	Substantial	-	-	2
Bank Reconciliation	Final Report	100%	Substantial	-	-	-
Key Reconciliations	Final Report	100%	Substantial	-	-	1
Payroll	Final Report	100%	Reasonable	-	1	-
Gas Safety #	Final Report	100%	Substantial	-	-	1
CDM Regulations #	Final Report	100%	Reasonable	-	1	-
Cemeteries	Final Report	100%	Substantial	-	-	1
Parks/Grounds Maintenance #	Final Report	100%	Substantial	-	-	1
Choice Based Lettings #	Final Report	100%	Substantial	-	-	1
Right to Buy	Final Report	100%	Substantial	-	-	3
Legionella Prevention/Testing	Final Report	100%	Reasonable	-	-	5
Commercial Prop/Industrial Units	Final Report	100%	Substantial	-	-	1
Transport (Fleet Management)	Final Report	100%	Substantial	-	-	2
Energy (including Procurement)	Final Report	100%	LIMITED	-	1	1
Garden Waste Collection	Final Report	100%	Substantial	-	-	1
Licensing (including Taxis)	Final Report	100%	Substantial	-	-	-
Section 106 Agreements	Final Report	100%	Substantial	-	-	-
Homelessness	Final Report	100%	Substantial	-	-	-
Disabled Adaptations/Lifeline	Final Report	100%	Substantial	-	-	1
Electrical Testing	Draft Report	90%	Pending			
Tenancy Management	In Progress	80%	Pending			
Human Resources #	Final Report	100%	Substantial	-	1	1
Procurement	Final Report	100%	LIMITED	-	1	1
Risk Management #	Final Report	100%	Substantial	-	-	3
Serious and Organised Crime #	Final Report	100%	Reasonable	-	-	6
Information Governance	Final Report	100%	Substantial	-	-	1
Safeguarding	Final Report	100%	Substantial	-	-	1

Audit Assignment	Status/ Completion		Assurance Opinion	Critical Risk Action	Significant Risk Action	Merits Attention Action
Risk Management	Final Report	100%	Substantial	-	-	1
Governance and Ethics	Final Report	100%	Substantial	-	-	-
Commercialisation	Final Report	100%	Substantial	-	-	-
Beeston Town Centre Scheme	In Progress	80%	Pending			
Computer/ICT	Deferred	0%	Pending			
Bramcote Leisure Centre	Final Report	100%	Reasonable	-	-	4
Events	Final Report	100%	Substantial	-	-	1
# Completed 2017/18 audits			Total	0	8	49

4. QUALIFICATIONS

The opinions expressed in this report have been based upon the work carried out by Internal Audit for 2018/19 (and subsequent to year-end) and other assurance reports received, including from the external auditors.

In the context of the Standards, 'opinion' means that Internal Audit will have done sufficient, evidenced work to form a supportable conclusion about the activity being examined. Internal Audit will word its opinion appropriately if it cannot give reasonable assurance (e.g. because of limitations to the scope and/or adverse findings arising from its work).

The overall opinion is provided with the following caveats:

- The opinion does not imply that Internal Audit has reviewed all the Council's risks, controls and governance arrangements. The opinion is substantially derived from the conduct of risk-based audit assignment work and, as such, it is only one component that is taken into account when producing the Annual Governance Statement.
- No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
- Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each audit report are to be realised.

5. ISSUES RELEVANT TO THE ANNUAL GOVERNANCE STATEMENT

This Committee considered significant governance issues as part of the draft Annual Governance Statement for 2018/19 on 20 May 2019.

The Chief Audit and Control Officer has reviewed the draft Annual Governance Statement. The significant governance issues raised in the statement were found to be appropriate. It was also found that the issues carried forward from the previous year had been addressed or were ongoing items that are being addressed.

With regard to the audits completed during the year, no actions were classed as being fundamental where action was considered imperative to ensure that the Council was not exposed to high risks. Where a limited assurance opinion was issued, the outstanding actions from these audits are not thought to be significant to the preparation of the Annual Governance Statement.

6. SUMMARY OF INTERNAL AUDIT ACTIVITY

6.1 Performance Overview

Overall, 97% of the revised planned audits were complete or awaiting finalisation at the year-end, which is above the target of 90%. All outstanding and deferred audits will be reconsidered as early as practicable in 2019/20.

A total of 11 audits were completed in respect of the key financial systems (out of the 12 included in the original plan). The Benefits audit, which was deferred to 2019/20, is in progress and is expected to be completed by 31 July 2019.

During the year, 40 audit reports were issued (including nine in respect of 2017/18) with a further eight reports awaiting finalisation. The reports included 57 recommendations, of which eight were considered to be 'significant'. No recommendation was classified as 'fundamental' where action was considered imperative to ensure that the Council was not exposed to high risks.

A limited assurance opinion was issued in respect of the audits of Energy and Procurement. This opinion is given where Internal Audit considered that controls within the respective systems provided only limited assurance that risks material to the achievement of the system's objectives are adequately managed. Progress has been made with the respective improvement actions and the outstanding matters are not thought to be sufficient so as to affect the overall opinion.

6.2 Internal Audit Resources

Two of the three established auditors remained in post throughout the period. An experienced Senior Internal Auditor left the Council in February 2019 after being successfully recruited to a similar role at another local authority. The net audit days lost due to the vacancy (around 35 days) was not reflected in the original audit plan, so a revision to the plan was approved by this Committee on 11 March 2019. A successful recruitment exercise has since yielded a suitable candidate who joined the Internal Audit team in June 2019.

No additional resources were required to complete the revised audit plan.

6.3 Special Investigations

Internal Audit completed work on the following special investigations:

- An audit of the Local Authorities Housing Statistics (LAHS) return prior to submission to Central Government.
- A review of the payment of Disabled Facilities Grants to order to satisfy that in all significant respects, the conditions attached to the Disabled Facilities Capital Grant Determination had been complied with.
- Reviews of evidence presented to support Right-to-Buy purchases, including an investigation into the circumstances surrounding a significant credit balance on a rent account in advance of sale.
- Supporting the Head of Finance Services with the production of property values in the annual Statement of Accounts and supporting responses to the external auditors relating to the accounts.
- A review of the pre-eviction protocol for rent arrears to confirm that the protocol complies with legislation and is operating appropriately and effectively.
- Assessments of the financial viability of potential contractors, suppliers and service providers applying to be considered for a number of tendered contracts and of potential tenants for the Council's premises.

6.4 Corporate Counter Fraud Activity and National Fraud Initiative (NFI)

Internal Audit continues to take a prominent role in leading and co-ordinating counter fraud activities. It committed around 19 days to counter fraud activity in 2018/19, which included work to co-ordinate and complete elements of the NFI data matching exercise.

An annual report on counter fraud activity is presented to the Committee elsewhere on this agenda. This includes details of activity in 2018/19 and an action plan for the forthcoming year, the delivery of which will further strengthen the current arrangements in place.

6.5 Erewash Audit

The collaboration with Erewash Borough Council to provide joint working and management arrangements of internal audit services commenced in 2015. The key elements of the proposal were considered by the General Purposes and Audit Committee on 9 March 2015.

During 2018/19, a total of seven audit days was allocated to work completed on behalf of Erewash, including an element of management time. Internal Audit has provided independent assurances of their risk management arrangements. An earlier review of Cemeteries was finalised in June 2018.

The collaboration with Erewash has continued into 2019/20 with the potential to develop further and allow for opportunities to provide more resilience, help with officer development and produce financial savings for both authorities.

7. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

7.1 Compliance with Proper Practice

In order to facilitate the review of the effectiveness of internal control required by the Accounts and Audit Regulations 2015, it is necessary to complete a review of the effectiveness of its internal audit. The latest review was completed in two parts:

- An internal self-assessment review against 'proper practice' consisting of the Public Sector Internal Audit Standards and the Local Government Application Note.
- An External Quality Assessment by a qualified, independent assessor from outside of the organisation, which is a periodic requirement of the Standards.

The effectiveness of Internal Audit is not solely judged against the extent of compliance with the Standards since the reviews are about effectiveness and not process. In addition to the self-assessment checklist, other aspects provide evidence to support the review including reports on the results of completed audit assignments and any significant findings; reports setting out the Internal Audit Plan for the forthcoming year; and an annual report on the performance of Internal Audit.

The review concluded that progress continues to be made to strengthen the role of Internal Audit at a corporate level, not least through the formal reporting procedures to this Committee. The outcome of the External Quality Assessment indicated that Internal Audit is substantially compliant with the Standards with some areas for development. Whilst areas were identified where improvements could be made these were not felt to be fundamentally undermining the efficiency and effectiveness of Internal Audit, its role within the organisation or the Chief Audit and Control Officer's ability to assess the internal control environment of the Council.

A report on the progress made with the improvement plan to address those areas where arrangements are not fully compliant will be presented to the next meeting of this Committee.

7.2 Quality Assurance and Improvement Programme

Overall, 97% of the revised planned audits were complete or awaiting finalisation at the year-end, which is above the target of 90%. All outstanding and deferred audits will be considered as early as practicable in 2019/20.

The achievement of a percentage completion of the audit plan does not in itself provide sufficient evidence of the quality of the function. The Chief Audit and Control Officer will continue to develop the Quality Assurance and Improvement Programme (QAIP) as referred to in the Internal Audit Charter.

The QAIP covers all aspects of Internal Audit activity and includes both internal and external quality assessments. The QAIP should provide sufficient evidence of the efficiency and effectiveness of the Internal Audit activity and enable conformance with all aspects of the Standards to be evaluated. The programme should identify opportunities for improvement as appropriate.

The following points are noted with regards to the QAIP:

- A review of the effectiveness of internal audit was completed and the overall findings were satisfactory. This included an independent External Quality Assessment which concluded that Internal Audit complies with the expectations of the Standards. This should provide Members with confidence in the assurance work provided by Internal Audit. The assessor acknowledged that the service benefits from an experienced team with relevant qualifications, and that it receives positive feedback from senior management and elected members. Furthermore, the review outcomes were benchmarked against other providers in both the public sector and wider industry and this showed that the team compares favourably against its peers.
- Membership of professional bodies and regional audit management groups supports the Chief Audit and Control Officer in identifying best practice and other potential service improvements.
- The Chief Audit and Control Officer undertakes quality reviews of the work of the internal audit activity to provide assurance that it complies with the Standards and meets the requirements of the Internal Audit Charter and Internal Audit Direction document.
- In addition to the wider service review, each audit assignment is subject to a quality management review of audit working papers prior to the distribution of the draft audit report for discussion and agreement with senior management.
- Improvement plans arising from any review of internal audit are prepared and reported to the Deputy Chief Executive and the Governance, Audit and Standards Committee as appropriate.