

## Report of the Chief Audit and Control Officer

**INTERNAL AUDIT REVIEW 2019/20**1. Purpose of report

To inform the Committee of the work of Internal Audit during 2019/20.

2. Detail

Under the 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 2019/20 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 comments from external auditors/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, 86% of the planned audits were complete or awaiting finalisation at the year-end, which was below the target of 90%. This outturn was impacted by the coronavirus pandemic lockdown, with Internal Audit providing necessary support in other areas, particularly with completing quality assurance and fraud checking of grants paid under the various emergency schemes. All outstanding and deferred audits will now be completed as early as practicable in 2020/21.

**Recommendation**

**The Committee is asked to NOTE the work of Internal Audit in 2019/20.**

Background papers

Nil

## APPENDIX

## INTERNAL AUDIT ANNUAL REVIEW REPORT 2019/20

**1. INTRODUCTION**

This annual review report provides a summary of Internal Audit activities for 2019/20.

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 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.
- **A number of audits have taken place during the coronavirus pandemic lockdown, which required the audit process to be**

adapted accordingly to enable it to be completed remotely. It is pleasing to report that Internal Audit considers that it has not been overly restricted in terms of its access to systems, records and people. As a result, the audit conclusions and the strength of the individual audit opinions provided were not overly impacted or qualified. The support of officers was most welcome in successfully concluding the audit testing.

- The Internal Audit Plan 2019/20, approved by this Committee on 11 March 2019, was informed by the Chief Audit and Control Officer's own assessment of risk and materiality, following consultation with senior management, to ensure it aligned to the Council's key strategic risks and corporate objectives.
- The following table summarises the outcomes of audit assignments completed in 2019/20, 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%	Reasonable	-	-	4
Benefits	Final Report 100%	Reasonable	-	1	1
Asset Register	Final Report 100%	Substantial	-	-	-
Sundry Debtors	Final Report 100%	Reasonable	-	-	3
Creditors and Purchasing	Draft Report 90%	Pending	-	1	1
Cash Receipting (Payment Kiosk)	Final Report 100%	LIMITED	-	2	5
NNDR	Final Report 100%	Substantial	-	-	2
Rents	Final Report 100%	Substantial	-	-	-
Treasury Management	Final Report 100%	Substantial	-	-	2
Council Tax	Final Report 100%	Substantial	-	-	2
Bank Reconciliation	Draft Report 90%	Pending	-	1	-
Key Reconciliations	Final Report 100%	Reasonable	-	-	1
Payroll (inc. Officers Allowances)	Final Report 100%	Reasonable	-	1	-
Commercialisation #	Final Report 100%	Substantial	-	-	-
Disabled Adaptations/Lifeline #	Final Report 100%	Substantial	-	-	1
Tenancy Management #	Final Report 100%	Substantial	-	-	-
Asset Management	Final Report 100%	Substantial	-	-	1
Bramcote Crematorium	Final Report 100%	Substantial	-	1	1
CCTV	Final Report 100%	Substantial	-	-	1
Planning Income Reconciliation	Final Report 100%	n/a	-	-	-
Recycling	Final Report 100%	Substantial	-	-	1
Local Elections	Final Report 100%	Reasonable	-	-	2
Electrical Testing #	Final Report 100%	Substantial	-	-	1
Choice Based Lettings	Final Report 100%	Reasonable	-	-	3
Human Resources	Final Report 100%	Substantial	-	-	1
Procurement/Contract Management	Final Report 100%	LIMITED	-	1	5
Independent Living	Final Report 100%	Reasonable	-	-	5
Information Governance	Final Report 100%	Substantial	-	-	1

Whistleblowing Policy & Complaints Enforcement	Final Report	100%	Reasonable	-	-	2	
Kimberley Depot (incl. Security)	Draft Report	90%	Pending	-	2	2	
Local Authority Trading Company	Draft Report	90%	Pending	-	1	2	
Housing Repairs	Draft Report	90%	Pending	-	1	4	
Beeston Town Centre Development	In Progress	80%	Pending	-	-	-	
Computer (incl. Cyber Risk)	In Progress	20%	Pending	-	-	-	
Corporate Governance	Deferred	0%	Pending	-	-	-	
Operational Risk Management	Deferred	0%	Pending	-	-	-	
Planning Applications Process	Deferred	0%	Pending	-	-	-	
Health and Safety	Deferred	0%	Pending	-	-	-	
LLL – Chilwell Olympia	Final Report	100%	Substantial	-	-	1	
LLL – Online Ticket Portal	Final Report	100%	Substantial	-	-	-	
# Completed 2018/19 audits				Total	0	12	60

#### 4. QUALIFICATIONS

The opinions expressed in this report have been based upon the work carried out by Internal Audit for 2019/20 (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 2019/20 on 18 May 2020.

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 critical 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, 86% of the planned audits were complete or awaiting finalisation at the year-end, which is below the target of 90%. This shortfall was not anticipated. The main impact has been from the Covid-19 pandemic lockdown and the urgency of diverting Internal Audit resources towards supporting other areas of work (including vital work associated with the quality assessment and fraud checking of grants paid under the Emergency Business Grants and Local Discretionary Grants schemes). All outstanding and deferred audits will be reconsidered as early as practicable in 2020/21.

A total of 11 audits were completed in respect of the key financial systems (out of the 13 included in the original plan). The Bank Reconciliation and Creditors and Purchasing audits were nearing completion at the time of writing and are both expected to be completed by 31 July 2020.

During the year, 45 audit reports were issued (including six in respect of 2018/19) with a further eight reports awaiting finalisation. The reports included 60 recommendations, of which 12 were considered to be 'significant'. No recommendation was classified as 'critical' 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 Cash Receipting (Payment Kiosk) and Procurement and Contract Management. 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**

The three established auditors remained in post throughout the period.

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.
- Reviews of evidence presented to support Right-to-Buy purchases.
- 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.
- A review the key control arrangements in place for the reconciliation of planning related income between the respective systems and the general ledger.
- A review of the Council's arrangements for financial reporting and transparency following contact from the Ministry of Housing, Communities and Local Government (MHCLG).
- An ongoing governance review and audit to provide assurance that the Council complied with the government's guidance on the grants given to businesses. The review also sought confirmation of compliance with internal governance protocols regarding the Covid-19 Community Support Grants provided to voluntary and mutual aid groups.
- Assessments of the financial viability of potential suppliers and service providers applying to be considered for a number of tendered contracts and of potential tenants for the Council's commercial 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 30 days to counter fraud activity in 2019/20, which included work to co-ordinate and complete elements of the NFI data matching exercise.

An annual report on counter fraud activity will be presented to this Committee in September 2020. This will include details of activity in 2019/20 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 2019/20, a total of 18½ audit days was allocated to work completed on behalf of Erewash, including an element of management time. Internal Audit has provided independent assurances to the Erewash management and Members of their Audit Committee on their risk management, safeguarding and data protection arrangements.

The collaboration with Erewash has continued into 2020/21 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 as an internal self-assessment against 'proper practice' consisting of the Public Sector Internal Audit Standards and the Local Government Application Note. Internal Audit was subjected to an External Quality Assessment in 2018 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 earlier 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.

### **7.2 Quality Assurance and Improvement Programme**

Overall, 86% of the planned audits were complete or awaiting finalisation at the year-end, which is below the target of 90%. The main reason for this was the Covid-19 pandemic lockdown and the urgency of diverting Internal Audit resources towards supporting other areas of work. All outstanding and deferred audits will be considered as early as practicable in 2020/21.



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. An earlier, independent External Quality Assessment had concluded that Internal Audit complied 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 when benchmarked against other providers in both the public sector and wider industry 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.