
Internal Audit Annual Assurance Report 2019/20

Committee considering report:	Governance & Ethics Committee on 27 July 2020
Portfolio Member:	Councillor Jo Stewart
Date Portfolio Member agreed report:	E-mailed to Councillor Stewart on 18 June 2020
Report Author:	Julie Gillhespey (Audit Manager)
Forward Plan Ref:	GE3821

1 Purpose of the Report

The Public Sector Internal Audit Standards (PSIAS) require the Audit Manager to make a formal annual report to those charged with governance within the Council.

2 Recommendation

That the Governance and Ethics Committee note the contents of the report.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	Not Applicable
Human Resource:	Not Applicable
Legal:	Not Applicable
Risk Management:	Internal Audit work helps to improve risk management processes by identifying weaknesses in systems and procedures and making recommendations to provide mitigation. The aim of which is to help ensure that services and functions across the Council achieve their goals and targets, and the organisation as a whole meets its plans and objectives.

Property:	Not Applicable			
Policy:	Not Applicable			
	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:		X		
Core Business:		X		

Data Impact:		X		
Consultation and Engagement:	Section 151 Officer, Monitoring Officer and Head of Finance and Property.			

4 Executive Summary

- 4.1 The PSIAS require the Audit Manager to make a formal report annually to those charged with governance in the Council. The report is required to include an opinion on the Council's governance, risk management and internal control framework, which in turn supports the Annual Governance Statement.
- 4.2 The audit opinion is based upon the assurance work undertaken during the year; knowledge gained from previous assurance work; as well as intelligence gained from other sources of assurance, both internal and external, for example, Ofsted and the Council's Finance and Governance Group.

4.3 Purpose of the Audit Manager's Annual Assurance Report

To provide:-

- (a) An opinion on the Council's governance, risk management and control environment;
- (b) Information to support the opinion given;
- (c) A summary of the work undertaken compared with planned;
- (d) Performance of the Internal Audit Team;
- (e) A statement as to whether the work of the Audit Team complies with the PSIAS.

4.4 Assurance Opinion

- (a) The Audit Manager can provide reasonable assurance that the governance, risk management and control framework remains robust. There were two audits deemed to be weak, these were the Purchase of Residential Care and S106 Agreements. Both of these reviews will have a follow-up to check on progress made on implementing agreed recommendations.
- (b) There were four Follow-up reviews completed during the year, for two of these we concluded unsatisfactory progress had been made (Implementation of the Property Database and Asset Management Strategy). When these outcomes were reported to Committee in November 2019, it was agreed a second stage follow-up would be carried out to check on progress, these are to commence in June 2020.

4.5 Performance of the Audit Team

The team has a service performance indicator to achieve 80% of the audit plan. For 2019/20 the actual result was 94%. This outcome is higher than in previous years, partly due to the team being fully staffed with experienced auditors, as well as the number of days spent on investigation work, as there are no fixed time budgets for this sort of work.

5 Supporting Information

Introduction

- 5.1 The Accounts and Audit (England) Regulations (2015) require each local authority to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices.
- 5.2 The Public Sector Internal Audit Standards (PSIAS), including the CIPFA "Local Government Application Notes", require the Chief Audit Executive (the Audit Manager) to make a formal report annually to those charged with governance in the Council. The report is required to include an opinion on the Council's governance, risk management and internal control framework, which in turn supports the Annual Governance Statement.

Background

- 5.3 This report provides that opinion and includes information to support the opinion given. The report content has been compiled to conform to the requirements of the PSIAS.
- 5.4 The audit opinion is based upon the assurance work undertaken during the year and knowledge gained from previous assurance work, as well as intelligence gained from other sources of assurance, both internal and external, for example, Ofsted and the Council's Finance and Governance Group.
- 5.5 A system of internal control cannot provide total assurance that all risk has been identified and eliminated; it is used to manage the level of risk so that it is at an acceptable level for an organisation, taking into account the Council's risk appetite.

Purpose of the Audit Manager's Annual Assurance Report

- 5.6 To provide:-
 - (a) An opinion on the Council's governance, risk management and control environment;
 - (b) Information to support the opinion given;
 - (c) A summary of the work undertaken compared with the work planned;
 - (d) Performance of the Internal Audit Team;
 - (e) A statement as to whether the work of the Audit Team complies with the PSIAS.

Assurance Opinion

- 5.7 The Audit Manager can provide reasonable assurance (opinion would either be reasonable or limited) that the governance, risk management and control framework remains robust. No system of control can provide absolute assurance against material misstatement or loss, therefore Internal Audit can only provide reasonable assurance. This year there were only two corporate audits which had a less than satisfactory audit opinion. As with previous years, the number of limited assurance reports is very low, which is the key criteria on which this annual audit opinion is based.
- 5.8 In 2018/19 the responsibility for overseeing the risk management governance framework moved to Strategic Support. Since that time changes have been made to the Council’s Risk Management procedures. In order to be able to comment on the effectiveness of the implementation of these changes and provide assurance on the new framework, an audit review has been included in the Audit Plan for 2020/21.
- 5.9 There have been no limitations or restrictions on the audit plan coverage or scope of the work undertaken that could have a negative impact on the opinion. There have been no impairments to the objectivity or independence of the Audit team.

Results of Work Undertaken to Support the Opinion

5.10 Internal Audit use the following categories for their assurance work report opinions:-

Opinion Category	Definition
Very Well Controlled	Very strong control framework with only minor control weaknesses or low levels of noncompliance identified.
Well Controlled	Strong control framework with a small number of control/compliance issues identified.
Satisfactory	An adequate control framework is in place, a number of control weaknesses identified but not significant enough to cause concern.
Weak	There are a large number of control weaknesses and/or some significant control issues which are of concern.
Very Weak	The overall control framework has significant weaknesses and is not effective.

5.11 A summary of the outcomes of the Internal Audit team’s assurance work during the year is detailed below together with the assurance opinion that was given:-

Corporate

Very weak	Weak	Satisfactory	Well Controlled	Very Well Controlled
0	2	5	4	0

Schools

Very Weak	Weak	Satisfactory	Well Controlled	Very Well Controlled
0	1	4	2	0

5.12 The tables show that the majority of audit opinions were satisfactory or above. There were two corporate audits deemed to be weak, the Purchase of Residential Care and S106 Agreements, the key findings for which have previously been reported to Committee in quarterly updates. We will schedule a follow-up review to check on progress against the agreed recommendations.

5.13 There were also two advisory/compliance reviews where no opinion was given, although weaknesses were identified and recommendations made. The outcomes of these have been considered in the assurance assessment.

5.14 Internal Audit undertake a follow-up review in all cases where there is weak or very weak opinion, and in some cases for a satisfactory opinion. The outcome of the follow-up work completed during the year is detailed below:-

Satisfactory Follow-up	Unsatisfactory Follow-up
2	2

5.15 When the two unsatisfactory Follow-up reviews were reported to Committee in November 2019 (Implementation of the Property Database and the Asset Management Strategy), it was agreed that Internal Audit would carry out a second stage Follow up in six months' time and report the results back to Committee.

Internal Audit Work Progress Update since the last Quarterly Report (as at the end of December)

5.16 The last Plan progress update was reported to the Governance and Ethics Committee in April, attached to this report are two appendices listing the work undertaken up to the end of the financial year, with completed work at Appendix A, and work in progress at

Appendix B. There were no weak audit opinions identified from work completed during the final quarter of the year.

Audit Team Resources and Performance

5.17 The team has a service performance indicator to achieve 80% of the audit plan. For 2019/20 the actual result was 94%. This is higher than the previous year's achievement of 81%. This increase in productive days is down to the team being fully staffed with experienced auditors as well as the number of days spent on investigation work, as there are no fixed time budgets for this sort of work.

5.18 All internal audit work has been undertaken in accordance with the requirements of the PSIAS, the Core Principles of internal audit and the Code of Ethics for internal audit. Under the PSIAS there is a requirement to have an external assessment of the internal audit service every five years. The external assessment was undertaken in May 2018. The outcome of which was that the Council 'generally conforms', this is the highest category of compliance (the other possible conclusions being 'partially conforms' and 'does not conform'). Recommendations included in the assessor's report were used as the basis of setting up a quality assurance improvement programme, which is a requirement under the PSIAS. The Audit Manager provided the Governance and Ethics Committee with an update on progress of the Improvement Programme in April this year.

5.19 The Audit Team currently consists of four staff; the Audit Manager and three senior auditors. A budget pressure was agreed for this year to increase the team by one member of staff, a Principal Auditor. A recruitment exercise is planned to be undertaken shortly for this post. This new post will create the additional capacity required in the team to shorten the timeframe between audits, and to lessen the impact of unplanned investigations/advisory work on the level of assurance work carried out.

Audit Plan Actual Coverage

5.20 The following table shows the level of time spent in each type of audit activity compared with the planned time:-

Audit Activity	Planned Time	Actual Time (up to allocated project time budgets)
Assurance work – Corporate	485	308
Assurance Work – schools	56	43

HR Investigations (Grievance and Disciplinary)	0	42
Fraud investigations	0	77
Advisory reviews (planned and requested in year)	35	42
Covid-19 related work	0	2
Plan preparation and Monitoring (corporate and schools)	22	25
Adhoc advice requests (corporate and schools)	20	38
Follow-ups	30	17
Other (support for G&E, external liaison)	14	18
Grant Assurance Work	10	22
Total Days	672	629
(These are the totals that are used to calculate the productivity percentage i.e. the 94% referred to in 5.17)		

5.21 Notes to support the information in the table at point 2.8.1 above:-

- (a) The large number of unplanned days spent on advisory work was due to a number of requests being received during the year, specifically the Audit Manager being requested to undertake a disciplinary investigation and a grievance investigation. There was also a few fraud investigations that were undertaken, the main one was quite complex and time consuming.

- (b) The Audit Manager undertook a large proportion of the unplanned work. This accounted for 46% of her time, which has had an impact in causing delays in some audit work being reviewed/draft reports issued.
- (c) Unplanned advisory/investigatory work reduces the level of assurance work that can be undertaken in a year. The team undertook 65% of actual assurance work compared with planned, if the team had not spent time on unplanned investigation work etc. the days spent on planned assurance work would have been in the region of 88%.
- (d) The planned work not undertaken is reviewed as part of risk assessing and preparing the new audit plan, and rescheduled into the following year where deemed appropriate.

5.22 The Covid-19 pandemic emerged in the latter months of the 2019/20 financial year, and therefore had limited impact on the performance of the team. At the time of writing this report it has become clear that in 2020/21 there will be changes to the agreed plan of work for Internal Audit as the risk environment has changed as a result of the pandemic and its impact on the Council's operations and finances. Internal Audit has already become involved in some Covid-19 advisory work and grant assurance work, it is envisaged that this is likely to increase during the year. The Audit Manager will provide the Committee with updates regarding this nature of work and the impact on the audit plan.

5.23 Under the Local Government Transparency Code 2015 the Council is required to publish certain information regarding fraud. In order to meet this duty the following information is provided:-

- (a) There are no professionally accredited counter-fraud internal investigators, the Internal Audit team has the skills and experience to undertake such work where it arises (4 full-time members of staff).
- (b) There have been no occasions where the powers under the Prevention of Social Housing Fraud have been used by the Audit Team.
- (c) There were 3 fraud investigation cases Internal Audit were involved in during the year, 2 of which were external fraud, the third case was internal.
- (d) There have been no specific costs incurred for the fraud work undertaken this year except for the salary costs for the days spent by the Audit team on fraud related work. Cost of the days spent on investigations using an average daily salary cost was £17,685 for 2019/20.

Proposals

5.24 The Governance and Ethics Committee note the content of the report.

6 Other options considered

Not applicable, the report is for information only.

7 Conclusion

This report was produced to provide the Audit Manager's opinion on the Council's governance, risk management and control framework for 2019/20. The Audit Manager's annual audit opinion is that reasonable assurance can be provided that the Council's governance, risk management and control framework remains robust.

8 Appendices

8.1 Appendix A – Audit Work Completed for last quarter of 2019/20.

8.2 Appendix B – Audit Work in Progress as at 31st March 2020.

Background Papers:

None.

Subject to Call-In:

Yes: No:

Report is to note only



Wards affected: Not applicable.

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