

Audit and Governance Committee

15 July 2020

Report of the Head of Internal Audit

Annual Report of the Head of Internal Audit

Summary

- 1 This report summarises the outcome of internal audit work undertaken in 2019/20 and provides an opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and internal control.

Background

- 2 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In respect of reporting, the relevant PSIAS standard (2450) states that the Chief Audit Executive (CAE)¹ should provide an annual report to the board². The report should include:
 - (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
 - (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
 - (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment)
 - (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification

¹ The PSIAS refers to the Chief Audit Executive. This is taken to be the Head of Internal Audit.

² The PSIAS refers to the board. This is taken to be the Audit Committee.

- (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
 - (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.
- 3 The Audit Committee approved the annual internal audit plan for 2019/20 at its 6 March 2019 meeting. This report summarises the delivery of the agreed plan and the other information required for the annual report as set out in paragraph 1 above.

Internal audit work carried out 2019/20

- 4 A summary of the audit work completed and the reports issued in the year is attached as Annex 1 to this report.
- 5 Internal audit normally measures performance by the number of audit reports issued compared to the agreed plan. Due to Covid-19, most audit work had to be suspended in March 2020. This included a number of audits where the fieldwork had been fully or substantially completed. Where possible, these reports have now been issued but it has not been possible to complete all the planned audit work. Before work was suspended due to Covid-19, we were on target to exceed the agreed target of 93% completion of the audit plan.
- 6 The results of completed audit work have been reported to service managers and relevant chief officers during the course of the year. The outcomes of internal audit work have also been reported to this committee as part of our regular progress reports.
- 7 All of the actions agreed with services as a result of internal audit work are followed up to ensure that the underlying control weaknesses are addressed. The results of follow up work are usually summarised twice yearly for this committee. The last report in September 2019 confirmed that management were continuing to make good progress to implement agreed actions.
- 8 Breaches of council financial regulations and contract procedure rules are identified from time to time, through ongoing internal audit work. Where breaches are identified,

these are reported to management for remedial action. There were no material breaches of financial regulations or procedure rules identified in 2019/20.

Opinion of the Head of Internal Audit

- 9 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating within the council is that it provides **Substantial Assurance**.
- 10 This opinion is however qualified, in light of the current coronavirus pandemic and the impact of this on the council. The opinion is based on internal audit work undertaken, and substantially completed, prior to emergency measures being implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short term measures or the overall impact on the framework of governance, risk management and control.
- 11 No reliance was placed on the work of other assurance bodies in reaching this opinion. The opinion is based on internal audit work completed during the year including that detailed in annex 1 and in monitoring reports to the committee during the year.
- 12 In giving this opinion attention is drawn to the following significant control issue which is considered relevant to the preparation of the 2019/20 Annual Governance Statement:
 - **Information Security & GDPR:** Whilst good progress continues to be made, further improvements are required to ensure compliance with the council's policies for handling and storing personal and confidential information.

There are also a number of issues still outstanding, relating to actions agreed in July 2019, following a GDPR readiness audit. These actions relate to policies, guidance, contract clauses; the information asset register; privacy notices; mandatory data protection training; management information on data security incidents.

Conformance with the Public Sector Internal Audit Standards & Internal Audit Charter

- 13 Veritau maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards, specifically the Public Sector Internal Audit Standards (PSIAS).
- 14 This Quality Assurance and Improvement Programme (QAIP) includes ongoing quality assurance arrangements and activities, annual self-assessment, external assessments at least once every five years, as well as an annual survey of senior management in each client organisation.
- 15 A detailed self-assessment to evaluate performance against the Standards is undertaken every year. This self-assessment has been carried out using the CIPFA checklist published in April 2019. The most recent external assessment of Veritau internal audit working practices was undertaken in November 2018³. This concluded that Veritau internal audit activity generally conforms to the PSIAS.
- 16 The outcome of the QAIP demonstrates that the service continues to generally conform to the PSIAS, including the Code of Ethics and the Standards. Further details of the QAIP are given in Annex 2.
- 17 The Internal Audit Charter sets out how internal audit at the council will be provided in accordance with the PSIAS. The Charter is reviewed on an annual basis and any proposed changes are brought to the Audit & Governance Committee. No changes are proposed at this time.

Other Matters

- 18 Veritau set up a Covid-19 Response Team to provide timely advice and support to our member councils to help them to manage the fraud risks and other challenges caused by the pandemic. A specific Covid-19 fraud risk assessment was completed for the council with targeted actions to reduce the emerging fraud risks. Advice and support was also given on

³ Reported to Audit and Governance committee in February 2019.

the administration of government and council business support grants.

- 19 CIPFA has recently issued guidance on the use of audit opinions by local authority internal audit teams. The guidance includes a recommendation that standard opinions and definitions should be adopted by the sector. The rationale is that it will provide more clarity, improve understanding, allow for easier comparison, reduce disruption (if providers of internal audit services change), allow assurances to be shared more readily across public bodies, and help with training. Annex 3 sets out the recommended opinions and definitions. Adoption of the standard opinions and definitions is not mandatory, however Heads of Internal Audit will be expected to justify why they are not using them. It is expected that most local authorities will adopt the new wording. Apart from a reduction in the number of opinions in use the proposed changes are not considered significant. Council officers have been consulted on the change and the new opinions will be used for all 2020/21 audits.

Consultation

- 20 Not relevant for the purpose of the report.

Options

- 21 Not relevant for the purpose of the report.

Analysis

- 22 Not relevant for the purpose of the report.

Council Plan

- 23 The work of internal audit helps the council achieve its objectives by evaluating and promoting improvement in the effectiveness of risk management, control and governance processes.

Implications

- 24 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**

- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

- 25 The council will not comply with proper practice for internal audit if the results of audit work are not reported to senior management and the Audit and Governance Committee.

Recommendation

- 26 Members are asked to:

- (a) note the results of internal audit work undertaken.

Reason

To enable members to consider the implications of internal audit findings.

- (b) note the opinion of the Head of Internal Audit on the adequacy and effectiveness of the council's framework of governance, risk management and internal control .

Reason

To enable members to consider the implications of internal audit findings.

- (c) note the outcome of the Quality Assurance and Improvement Programme and the confirmation that the internal audit service conforms with Public Sector Internal Audit Standards.

Reason

To enable members to consider the opinion of the Head of Internal Audit.

- (d) note the significant control weaknesses identified during the year which are relevant to the preparation of the Annual Governance Statement.

Reason

To enable the Annual Governance Statement to be prepared.

- (e) note the new audit opinions and definitions to be adopted from 2020/21 onwards

Reason

To comply with internal audit recommended practice

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**Report
Approved**

Date 15 July
2020

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers

- 2019/20 Internal Audit Plan
- Internal Audit and Monitoring Reports to Audit and Governance Committee in 2019/20 (September, December)
- The Public Sector Internal Audit Standards 2017
- CIPFA – The Role of the Head of Internal Audit in Public Sector Organisations

Annexes

- Annex 1 - 2019/20 audit work carried out

- Annex 2 - Quality Assurance and Improvement Programme (QAIP)
- Annex 3 – audit opinions and definitions (for 2020/21 audit work)