

For publication

INTERNAL AUDIT CONSORTIUM ANNUAL REPORT 2019/2020

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|--------------------|-----------------------------------|
| Meeting: | Standards and Audit Committee |
| Date: | 22 nd July 2020 |
| Cabinet portfolio: | Governance |
| Report by: | Internal Audit Consortium Manager |

For publication

1.0 Purpose of report

1.1 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 (PSIAS).

- 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.

2.0 Recommendation

- 2.1 That the Internal Audit Consortium Annual Report for 2019/20 be accepted.

3.0 Report details

IMPACT OF COVID 19

- 3.1 The advent of COVID 19 has had an impact on the timeliness of the completion of the 2019/20 internal audit plan. Whilst the vast majority of the plan has now been completed, some of these audits were completed in the new financial year.
- 3.2 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.

3.3 Enough of the internal audit plan has been completed to be able to give 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 significant. The Audit and Standards Committee will be provided with regular updates in respect of the completion of the 2020/21 plan.

SUMMARY OF WORK UNDERTAKEN

3.4 Appendix A 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 provided on the reliability of the internal controls and the assurance level given at the last audit. The report opinions can be summarised as follows:

| Assurance Level | 2018/19 Number | 2019/20 Number | 2019/20 % |
|------------------------|-----------------------|-----------------------|------------------|
| Substantial | 11 | 11 | 38 |
| Reasonable | 14 | 15 | 52 |
| Limited | 5 | 2 | 7 |
| Inadequate | 1 | 1 | 3 |
| Total | 35 | 29 | 100 |

3.5 A definition of the above assurance levels is shown in Appendix A.

3.6 There were no issues relating to fraud arising from the reports detailed in Appendix A.

3.7 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 of Plan Completed (CBC) | 96% | 82%** | 75% * |
| Sickness Absence (Average Days per Employee) | 8.0 (Corporate Trigger) | 3.8 | 8.0 |
| Customer Satisfaction Score (CBC) | 85% | 94% | 85% |
| To issue internal audit reports within 10 days of the close out meeting (CBC) | 90% | 100% | 90% |
| Number/proportion of audits completed within time allocation (CBC) | 80% | 81% | 80% |
| Quarterly reporting to Standards and Audit Committee | 100% | 100% | 100% |

* Although the usual target is 96%, this will not be achievable given the impact of COVID 19. During the year the plan will be frequently revisited, prioritised and progress reported to members.

** As at the end of April 28/34 audits had been completed = 82%. This was partly due to an Auditor leaving mid year, training of a new auditor and also the time commitment involved in respect of an Auditor undertaking a CIPFA apprenticeship. Covid -19 also effected the productiveness of staff during March 2020. A further 4 audits have now been completed taking the percentage completed to 94%. The remaining 2 audits (Community Safety and Members pc's / ipads) will be undertaken in 2020/21. The members pc's / ipads audit was deferred from mid -March as IT needed to concentrate on ensuring that staff could work from home.

OPINION ON THE ADEQUACY AND EFFECTIVENESS OF THE CONTROL ENVIRONMENT

3.8 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 organisation's framework of governance, risk management and control.

- 3.9 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. However, the exception to this is in respect of procurement policies and procedures for which an inadequate assurance internal audit report was issued. In this area governance, risk management and control arrangements were not operating effectively. A number of recommendations have been made to reduce the risk to the organisation and improve the arrangements in place.
- 3.10 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 some areas where improvements are required.
- 3.11 Overall, 90% of the areas audited received Substantial or Reasonable Assurance demonstrating that there are effective systems of governance, risk management and control in place.
- 3.12 In addition to the inadequate procurement report detailed above, there were 2 Limited Assurance reports issued during the year (car park income and register of gifts and hospitality and personal interests). In respect of car park income management have implemented all of the recommendations made. The recommendations made in respect of gifts and hospitality are in the process of being implemented.
- 3.13 Performance management procedures are in place to

ensure that CMT receive regular reports in relation to outstanding audit recommendations in order that appropriate action can be taken.

3.14 The Standards and Audit Committee also receive a 6 monthly report in relation to outstanding audit recommendations. Where a limited or inadequate assurance audit report is issued, managers are also required to attend the Standards and Audit Committee to discuss progress and to provide assurance that recommendations are being implemented in a timely fashion.

3.15 Members should also be aware of the high risk areas that are highlighted within the Council's Corporate Risk Register some of which have been reviewed by Internal Audit in 2019/20:-

- Having a sustainable financial plan;
- Managing change effectively to deliver the required transformational changes and savings
- Workforce – ensuring the council has the right skills and capacity
- Investment and development of the ICT infrastructure
- Information Governance
- Information security – data security
- Protecting the public and staff – Health & Safety
- Procurement contract management
- Key partnerships
- Provision of social housing
- Emergency planning and business continuity arrangements
- BREXIT
- Safeguarding children and vulnerable adults
- Non- Housing Property Repairs

ISSUES FOR INCLUSION IN THE ANNUAL GOVERNANCE STATEMENT

- 3.16 The internal control issues arising from audits completed in the year have been considered during the preparation of the Annual Governance Statement. Procurement policies and procedures has been raised as a significant governance issue within the annual governance statement. Other previously identified weaknesses in relation to non housing property repairs and workforce capacity and capability have also remained on the Annual Governance Statement this year as further work is needed to make improvement in these areas.
- 3.17 Other previous significant issues such as ICT and health and safety have been discussed with the Corporate Management Team and the Standards and Audit Committee. Whilst not fully resolved, substantial progress has been made in respect of these areas. These items are therefore not included within the Annual Governance Statement but are within the Annual Governance Statement action plan.

COMPARISON OF PLANNED WORK TO ACTUAL WORK UNDERTAKEN

- 3.18 The Internal Audit Plan for 2019/20 was approved by the Standards and Audit Committee on the 24th April 2019. 32/34 audits have now been completed. In respect of the remaining 2 audits, the community safety audit has been incorporated in to the 20/21 internal audit plan and the audit of members pc's and IPads will be scheduled during 2020/21.

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

- 3.19 During 2019/20 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.
- 3.20 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. This action plan has now been completed. An improvement spreadsheet has been introduced to identify further areas for improvement. This spreadsheet is discussed at every team meeting and actions agreed accordingly.
- 3.21 A further external review will need to be undertaken in the summer of 2021.
- 3.22 It can also be confirmed that the internal audit activity is organisationally independent. Internal audit reports directly to an Executive Director but has a direct and unrestricted access to the Corporate Leadership Team and the Standards and Audit Committee.
- 3.23 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 their 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. The audit manual was reviewed and updated in May 2020.

3.24 The above quality control procedures have ensured conformance with the PSIAS.

3.25 Based on the customer satisfaction survey forms returned, the average score was 94% for customer satisfaction during 2019/20 (2018/19 result 94%).

3.26 The results of the Client Officer survey for Chesterfield were a score of 97% (a score of 34/35 over 7 questions).

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

- 3.27 The Audit Charter was last reported to and approved by the Audit and Standards Committee in July 2018. The Charter has been reviewed in May 2020 and will be presented to the Standards and Audit Committee for approval at the earliest opportunity.
- 3.28 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.
- 3.29 There are no human resources implications.
- 3.30 There are no financial implications
- 3.31 There are no legal or data protection implications.
- 3.32 Risk Management - This report ensures that Members are aware of the work undertaken by internal audit during 2019/20 and their opinion on the adequacy and effectiveness of the systems in place at Chesterfield Borough Council.
- 3.33 Equalities Impact Assessment (EIA) - Not Applicable.

4 **Alternative Options and Reasons for Rejection**

- 4.1 Not Applicable.

5.0 Recommendation

- 5.1 That the Internal Audit Consortium Annual Report for 2019/20 be accepted.

6.0 Reasons for recommendation

- 6.1 To present to Members the annual report for the Internal Audit Consortium in respect of Chesterfield Borough Council for 2019/20.
- 6.2 To ensure compliance with the Public Sector Internal Audit Standards.
- 6.3 To provide an opinion on the overall adequacy and effectiveness of the Council's control environment including any qualifications to that opinion.

Decision information

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|---|--|
| Key decision number | |
| Wards affected | |
| Links to Council Plan priorities | Internal audit work aids in the Council's priority to provide value for money. |

Document information

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|--|--|
| Report author | Contact number/email |
| Jenny Williams Internal Audit Consortium Manager | 01246 959770 EX 6770 Jenny.williams@chesterfield.gov.uk |
| Background documents | |
| These are unpublished works which have been relied on to a material extent when the report was prepared. | |
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| Appendices to the report | |
| Appendix A | Internal Audit Reports Issued 2019/20 |

**Form to return to Democratic Services with report
(will be removed before publication)**

| | |
|---|--------------------------|
| Officers/members consulted on the report | |
| Communications | <input type="checkbox"/> |
| Human Resources | <input type="checkbox"/> |
| Finance | <input type="checkbox"/> |
| Legal | <input type="checkbox"/> |
| Information Assurance | <input type="checkbox"/> |
| Consultation and Engagement | <input type="checkbox"/> |
| Equality, diversity and human rights | <input type="checkbox"/> |
| Cabinet member portfolio holder (and consultee cabinet member if applicable) | <input type="checkbox"/> |
| Comments from Cabinet Member (if applicable) | |
| | |

Appendix A

Chesterfield Borough Council – Internal Audit Reports Issued 2019/20

| Ref | Report Title | Overall Opinion/ Assurance | |
|-----|---|----------------------------|-------------------------|
| | | 2019/20 | Previous Audit |
| 1 | Food Hygiene | Reasonable | N/A - new |
| 2 | Risk Management | Reasonable | Satisfactory |
| 3 | Dunston & Tapton Innovation Centres | Substantial | Good |
| 4 | Crematorium | Substantial | Substantial |
| 5 | Pest Control & Stray Dog Income | Reasonable | Satisfactory |
| 6 | Venues | Reasonable | Substantial |
| 7 | Council Tax | Reasonable | Reasonable |
| 8 | Car Park Income | Limited | Reasonable |
| 9 | Outdoor Facilities Income | Reasonable | Limited |
| 10 | Data Protection & FOI Requests | Reasonable | Limited |
| 11 | National Non Domestic Rates | Substantial | Substantial |
| 12 | Museum & Revolution House Income | Reasonable | Satisfactory |
| 13 | Property Inspections follow up | Reasonable | Limited |
| 14 | Corporate Health & Safety | Reasonable | Inadequate |
| 15 | Land Charges Income | Substantial | Satisfactory |
| 16 | Housing Benefits & Council Tax Support | Substantial | Substantial |
| 17 | Cash and Bank | Substantial | Substantial |
| 18 | Accounts Receivable | Substantial | Substantial |
| 19 | Accounts Payable | Reasonable | Reasonable |
| 20 | Gifts, Hospitality & Personal Interests | Limited | Marginal |
| 21 | Treasury Management – Investments & Loans | Substantial | Substantial |
| 22 | Cemeteries Income | Reasonable | Satisfactory |
| 23 | Payroll | Reasonable | Reasonable |
| 24 | Vicar Lane & the Pavements Centre | Substantial | Satisfactory |
| 25 | Housing Rents Accounting System | Substantial | Substantial |
| 26 | Recruitment and Selection | Reasonable | |
| 27 | Housing Repairs – Capital Programme | Reasonable | Inadequate / Reasonable |
| 28 | Procurement | Inadequate | Inadequate |
| 29 | Unit 4 Business World FMS | Substantial | Substantial |

Internal Audit Assurance Level Definitions

| 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. |