

Committee: Governance, Audit and Performance Committee
Title: Internal Audit Annual Report and Opinion 2018-19
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Summary

1. The purpose of this report is to advise on the work carried out by Internal Audit during 2018/19 and provide an overall opinion on the Council's control environment for 2018/19. The report also shows the state of compliance with the Public Sector Internal Audit Standards (PSIAS) which came into effect on 01 April 2013 and were revised and updated from 01 April 2017.

Recommendations

2. That Internal Audit coverage, the Internal Audit opinion and compliance with the Public Sector Internal Audit Standards are noted.

Financial Implications

3. None. There are no costs associated with the recommendations.

Background Papers

4. None

Impact

- 5.

Communication/Consultation	The Internal Audit Final Reports referred to in this report have been circulated to Members. This report has been discussed with the Corporate Management Team at its meeting 10 July 2019.
Community Safety	none
Equalities	none
Health and Safety	none

Human Rights/Legal Implications	This report partly informs the Annual Governance Statement. The Statement is published to complement the Council's Statement of Accounts. This is a requirement set out in the Accounts and Audit Regulations 2015, regulation 6(1)(a) and (b) that all relevant bodies prepare an annual governance statement.
Sustainability	none
Ward-specific impacts	none
Workforce/Workplace	none

Situation

6. Internal Audit is statutory service that forms part of the Council's corporate governance framework. The service is an assurance function that primarily provides an independent and objective opinion on the management of operational risk, control and governance.
7. Internal Audit work partly informs the Annual Governance Statement which is published with the Council's Statement of Accounts.
8. The Internal Audit Work Programme is a rolling programme of planned audit work subjected to regular reviews and updating at strategic points throughout the year to take into consideration changes in priority, audit resources and additional unplanned time requirement.
9. Throughout 2018/19 the Internal Audit Manager reported to Members of the Governance, Audit & Performance Committee on details of work undertaken by Internal Audit and on implemented and outstanding Internal Audit recommendations.
10. Internal Audit resource is 1 full-time audit manager, 1 full-time auditor and 1 part-time (0.7 FTE) auditor.
11. The Internal Audit Manager was seconded to lead the Council's GDPR Project Team for twelve months from 01 August 2017. This secondment was extended initially to 31 October 2018 and then extended further to 31 December 2018. At the start of this secondment in 2017, the part-time auditor post was increased to a full time post from 01 August 2017 to 31 July 2018 to ensure that the Internal Audit service would be able continue to give the level of assurance required.
12. The extension of the Audit Manager's secondment to 31 December 2018; staff absences due to sickness and the part-time post being vacated in January but not filled until June 2019, have had a major impact on the Internal Audit service in 2018/19.

13. As reported to this Committee at its meeting on 07 February 2019, the audit programme was reviewed and revised in January 2019. The decision was taken to extend work on the 2018/19 Internal Audit Programme to 30 June 2019 to ensure a meaningful overall audit opinion on the Council's control environment for 2018/19 could be given in this Annual Report and Opinion. External resource was bought in to assist in completion of two of the key financial audits.

14. The original resource predicted in the Internal Audit Strategy 2018/19 as presented to this committee September 2018 and actual resource needed to complete the 2018/19 Internal Audit Programme work by 30 June 2019 were:

	PREDICTED IN IA STRATEGY 2018/19			ACTUAL RESOURCE needed 01/03/18 TO 30/06/19			
	01/03/18 to 31/07/18	01/08/18 to 31/10/18	31/10/18 to 31/03/19	01/03/18 to 31/12/18	01/01/19 to 10/03/19	11/03/19 to 09/06/19	10/06/19 to 30/06/19
Audit Manager	0.20 FTE	0.20 FTE	FT	0.20 FTE	FT	FT	FT
Internal Auditor	FT	FT	FT	FT	FT	FT	FT
Internal Auditor	FT	0.7 FTE	0.7 FTE				0.7 FTE
Internal Auditor - external						20 days bought in	

2018/19 Planned Audit Work – Revisions to the Internal Audit Programme

15. In the Internal Audit Strategy & Work Programme August 2018 there were a total of 29 audits on the initial Internal Audit Programme 2018/19. Following the January 2019 review, this was revised to a total of 22 audits plus the Corporate Counter Fraud Risk Assessment.

16. Of the revised 22 audits undertaken in 2018/19:

- 7 were Key Financial Audits;
- 2 were Corporate Audits;
- 13 were Other audits.

17. In the January 2019 review, 255 days were allocated to these audits as:

- Key Financial Audits - 60 days (24%)
- Corporate Audits - 45 days (18%)
- Other Audits - 145 days (57%)
- Corporate Counter Fraud - 5 days (1%)

18. On completion of our 2018/19 audit work actual days taken were 245 days against the revised allocated 255 days.
19. The actual audit days used were
- Key Financial Audits - 58 days (23%)
 - Corporate Audits - 48 days (20%)
 - Other Audits - 137days (56%)
 - Corporate Counter Fraud - 2 days (1%)

Annual Audit Opinion

20. Our audit opinions are formed on the basis of the number of recommendations made and level of risks associated with them.
21. The table reproduced at appendix A shows the audit work undertaken; the revised potential audit days following the January 2019 review; the actual audit days taken to complete the 2018/19 audit work; the audit opinions formed and the number of recommendations made as a result of our audit work.
22. For the 22 audits in the 2018/19 audit programme on which an opinion has been given, 58 recommendations have been made to improve the Council's control environment. This is in comparison with the 70 recommendations made in the 20 completed 2016/17 audits and 53 recommendations made in the 20 completed audits in the 2015/16 audit programmes.
23. The 57 recommendations arising from our 2018/19 audit work were assessed as follows:
- 2 recommendations were assessed as level 4
(fundamental and requiring immediate attention and priority action)
 - 26 recommendations were assessed as level 3
(significant that should be addressed within six months)
 - 20 recommendations were assessed as level 2
(important that should be addressed within twelve months)
 - 10 recommendations were assessed as level 1
(merit attention and would improve overall control)
24. For the 22 audits on which an opinion on the level of assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled has been given:
- the opinion for 1 audit was 'little assurance'
 - the opinions for 2 audits were 'limited assurance'
 - the opinions for 10 audits were 'satisfactory assurance' and

- the opinions for 9 audits were 'substantial assurance'
25. For the 7 Key Financial Audits on which an opinion has been given on the level of assurance that risks material to the achievement of the objectives for the audited areas were managed and controlled:
- the opinions for 4 audits were 'satisfactory assurance' and
 - the opinions for 3 audits were 'substantial assurance'
26. A 'little assurance' opinion was given in the report issued for the audit of Corporate Equality and Diversity 2018/19 in which we made:
- 8 x level 3 recommendations and
1 x level 2 recommendation
- At 30 June 2019, 1 of the recommendations made has been implemented; the remaining recommendations are expected to be implemented by their due dates in 2019/20.
27. A 'limited assurance' opinion was given in the report issued for the audit of Environmental Health Enforcement 2018/19, in which we made:
- 4 x level three recommendations and
1 x level two recommendations
- At 30 June 2019, 3 of the recommendations made have been implemented; the remaining recommendations are expected to be implemented by their due dates in 2019/20.
28. A 'limited assurance' opinion was given in the report issued for the audit of Housing Planned Maintenance 2018/19, in which we made:
- 1 x level four recommendations and
2 x level three recommendations
- At 30 June 2019, the level 4 recommendation has been implemented; the remaining recommendations are expected to be implemented by their due dates in 2019/20.
29. Copies of the Final Reports for completed audits that had been issued were circulated to Committee Members and are available on the Council's Intranet.
30. In determining the overall audit opinion for the year, the factors in paragraphs 22 to 28 have been taken into consideration and weighted accordingly.
31. Therefore, our audit opinion on the control environment for 2018/19 is that risks material to the achievement of the objectives for the audited areas

identified by Internal Audit are, on balance, **satisfactorily** managed and controlled.

Implementation of Internal Audit Recommendations

32. To stimulate improvement and reduce the likelihood of error or loss, management have a responsibility for ensuring the recommendations contained within Internal Audit reports are implemented. To encourage the timely implantation of agreed recommendations all management action and timetable for implementation is agreed prior to the issue of the final report.
33. All recommendations, agreed management action and timetable for implementation are input into Pentana for Internal Audit management purposes.
34. Internal Audit manages the follow-up of implementation of recommendations through a combination of updates from responsible officers following automatic trigger notifications sent out by Pentana; regular reporting to meetings of this Committee and a rolling follow up programme at six months after the latest implantation date of the agreed management action or as part of the next audit of an area.
35. All audit reports are addressed to the member of CMT responsible for the audited area and copied to the Chief Executive, the Director of Finance and Corporate Services, the Director of Public Services and the Assistant Director of Governance & Legal.
36. Members of the Governance, Audit & Performance Committee received copies of all audit Terms of Reference and Final Reports.
37. Of the 58 recommendations made in Audits from the 2018/19 audit programme to date:
 - 15 have been implemented;
 - 43 have yet to reach their due date and will continue to be monitored through Pentana with progress reported to this Committee during 2018/19.

External Auditors

38. Liaison meetings and informal ad hoc meetings were held between the Audit Managers of Internal Audit and the External Auditor to discuss current work being undertaken and future work plans.
39. The work of the Council's Internal Audit is governed by the UK Public Sector Internal Audit Standards (PSIAS) 2017. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), additional requirements and interpretations for the UK public sector have been inserted in such a way as to

preserve the integrity of the text of the mandatory elements of the IPPF. The PSIAS are mandatory for all internal auditors working in the UK public sector.

40. An External Quality Assessment of the performance of Internal Audit and its conformance with the PSIAS was undertaken in September 2017. An essential element of this assessment was to ensure that the annual audit opinion issued by Internal Audit may be relied upon as a key source of evidence and assurance.
41. The External Assessment concluded that the Internal Audit service generally conforms with the expectations of the PSIAS and made 15 recommendations to reflect that there are areas in which the service can be further improved and enhanced. Lack of resource has resulted in implementation of only 3 recommendations during 2018/19, the service will be working to implement the remaining recommendations during 2019/20.
42. It can also be confirmed that the internal audit activity is organisationally independent and that the independence of Internal Audit has not been compromised during 2018/19. Internal audit reports to the Assistant Director of Governance and Legal (Monitoring Officer) but has a direct and unrestricted access to all senior management and the Governance, Audit & Performance Committee.
43. Quality control procedures have been established within the Internal Audit Services 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 invariably identify issues for clarification, the overall conclusion of the quality assurance checks is that work is being completed and documented thoroughly.
 - Customer Satisfaction – A Post Audit Feedback form is issued to the main auditees on completion of an audit. This form was revised for 2018/19 seeks the views of auditees on how the audit. Based on the Post Audit Questionnaire forms returned, the average scores for 2018/19 audits completed were:
 - 83% satisfaction on the way the audit was conducted, the report, recommendations made and
 - an overall satisfaction rating of 4.3 out of 5.
 - All Internal Audit staff are 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.

44. The above quality control procedures have ensured conformance with the PSIAS and that all Internal Audits have been conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Review of Performance of the Internal Audit Service against the Current Internal Audit Charter

45. The Internal Audit Charter was reported to and approved by the Performance & Audit Committee on 15 November 2018.
46. Based on the information provided in this report on the completion of the 2018/19 Internal Audit Programme, it is considered that the requirements of the Charter were met during the year.

Risk Analysis

47.

Risk	Likelihood	Impact	Mitigating actions
No internal audit assurance is provided to those charged with governance	1 Internal Audit work programme for 2018/19	3 Failure to provide internal audit assurance could lead to inability to meet corporate and operational objectives and Adverse External Auditor report and damage to the Authority's reputation	The External Auditor reviews the outcome of Internal Audit work. The performance of the Internal Audit Section is monitored by senior management and Members.
Those charged with governance do not respond to Internal Audit recommendations.	2 Reports can contain re-iterations of recommendations made during previous audit that have not been implemented.	3 There would be varying levels of impact from any non-implementation of the recommendations given the high significance of the majority of control risks identified.	There is an escalation procedure. Internal audit reports are followed up to ensure compliance. The outcome of Internal Audit work is reviewed by the External Auditor and by the Governance, Audit & Performance Committee.

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.