

**Committee:** Governance, Audit and Performance Committee

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**Title:** Internal Audit Annual Report and Opinion 2019-20

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## Summary

1. The purpose of this report is to advise on the work carried out by Internal Audit during 2019/20 and provide an overall opinion on the Council's control environment for 2019/20. 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. The Governance, Audit and Performance Committee are requested to note the Internal Audit Annual report, the Internal Audit Manager's opinion and compliance with the Public Sector Internal Audit Standards

## 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 22 July 2020
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) that all relevant bodies prepare an annual governance statement.
Sustainability	none
Ward-specific impacts	none
Workforce/Workplace	none

## Situation

6. This document summarises the results of internal audit work during 2019/20 and, as required by the Accounts and Audit (England) Regulations 2015, gives an overall opinion of the Council's governance, risk management and control framework.
7. The Internal Audit Manager is required to provide the Council and the Chief Executive with a statement on the adequacy and effectiveness of the organisation's risk management, control and governance processes.
8. In giving an opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the organisation is a reasonable assurance there are no major weaknesses in the Council's risk management, control and governance processes.
9. In assessing the level of assurance to be given, the Internal Audit Manager has taken into account:
  - a) All reviews completed during the year;
  - b) Any follow up actions taken in respect of audits from previous periods;
  - c) High priority recommendations not accepted by management or acted upon (there were none) and any associated risks;
  - d) The effect of any significant changes in the Council's objectives, activities or systems;
  - e) Matters arising from previous reports to the Governance, Audit and Performance Committee;
  - f) Whether any limitations have been placed on the scope of Internal Audit (there have not been any);

- g) The extent to which resources constraints may impinge upon the Internal Audit Manager's ability to meet the full audit needs of the Council (the Covid-19 emergency from March 2020 has delayed completion of the Audit Programme);
  - h) The proportion of the Council's audit need that has been covered to date;
  - i) The results of work performed by other assurance providers including the work of the External Auditors.
10. The Internal Audit Manager is satisfied that sufficient internal audit work has been undertaken to allow a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, control and governance processes to be drawn.
11. This report outlines the work undertaken by Internal Audit during the 2019/20 year and covering the period 1 April 2019 to 31 March 2020.
12. Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Internal Audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. On behalf of the Council, Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of these arrangements.
13. The Internal Audit Manager is required by professional standards to deliver an Annual Internal Audit Opinion and report to those charged with governance timed to support the Annual Governance Statement. The Annual Internal Audit Opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:
- a) the opinion;
  - b) a summary of the work that supports the opinion;
  - c) a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
14. The primary role of Internal Audit is to provide assurance to the Council (Management, Heads of Service and the Governance, Audit & Performance Committee) and ultimately the taxpayers that the Council maintains an effective control environment that enables it to manage its significant organisational risks. Internal Audit helps the Council achieve its objectives and provide assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of the Council's control environment which feeds into the Annual Governance Statement.

15. Throughout 2019/20 the Internal Audit Manager reported to Members of the Governance, Audit & Performance Committee on details of work undertaken by Internal Audit and on the implementation of Internal Audit recommendations.

### **Internal Audit Work 2019/20**

16. The Draft Internal Work Programme for 2019/20 was approved by Members of the Governance, Audit & Performance Committee at its meeting 30 May 2019; the Internal Audit Strategy and Work Programme 2019/20 was approved by Members of the Governance, Audit & Performance Committee at its meeting 25 July 2019.

17. Resource issues had a major impact on the Internal Audit service in 2018/19; to mitigate this 90 days of the 2019/20 audit programme had to be allocated to completing the Residual 2018/19 Internal Audit work at the beginning of the 2019/20 financial year.

18. The Internal Audit resource for 2019/20 was:

	01/04/19 to 09/06/19	10/06/19 to 31/03/20
Internal Audit Manager	FT	FT
Internal Auditor	FT	FT
Internal Auditor		0.7 FTE

19. The volume of audit work planned for 2019/20 was reduced to allow it to be completed within the nine months from 01 July 2019 to 31 March 2020.

20. To be able to provide an acceptable level of assurance on the Council's management of its operational risks, controls and governance; priority was given to Risk Level 4 and 3 work over any other work on the Internal Audit Strategic Programme.

### **2019/20 Leave Provisions & Non-Audit Time**

21. At 31 March 2020, Leave Provisions and Non-Audit Time accounted for 260 days against the allocated 220 days (+40). The higher than anticipated level of Non-Audit time is primarily accounted for by additional administration, management and team meeting time associated with sick leave, recruitment & appointment of new auditor, two office moves and latterly Covid-19 home-working arrangements in March 2020.

### **2019/20 Productive Non-Specific Audit Work**

22. At 31 March 2020, Productive Non-Specific Audit Work accounted for 181 days against the allocated 180 days (+1).

	<b>actual days taken</b>	<b>allocated days</b>	<b>diff</b>
contribution to corporate management (including Elections)	<b>27</b>	<b>25</b>	+2
Annual Governance Statement	<b>5</b>	<b>6</b>	-1
consultancy & general advice	<b>16</b>	<b>11</b>	+5
committee & member related work	<b>16</b>	<b>12</b>	+4
fraud related work	<b>13</b>	<b>9</b>	+4
irregularity provision	<b>9</b>	<b>20</b>	-11
follow-up work	<b>5</b>	<b>5</b>	0
residual 2018/19 audit work	<b>89</b>	<b>90</b>	-1
Other- e.g. External Auditor liaison	<b>1</b>	<b>2</b>	-1
	<b>181</b>	<b>180</b>	<b>+1</b>

### **Planned Audit Work 2019/20**

23. In the Internal Audit Strategy & Work Programme (July 2019) there was a total of 29 audits on the Internal Audit Programme 2019/20. Following a December 2019 review, this was revised to a total of 27 audits expected to be completed by 30 April 2020.

### **Impact of the Covid-19 Emergency on the Internal Audit Programme 2019/20**

24. From 18 March 2020 the Internal Audit Manager and Internal Auditors have been working from home; our work priority being to complete as far as possible the audits on the 2019/20 Internal Audit Programme and to continue to provide advice and assistance to all services during the emergency.

25. Progress on the 2019/20 Audit Programme was reviewed weekly; at 30 May 2020 Final Reports had been issued for 20 out of the 27 Audits.

26. Due to the Covid-19 emergency, the further work required for completing the remaining 7 audits could not be undertaken; the decision was taken to suspend work on these 2019/20 audits and issue an Interim Reports for internal circulation only.

27. Of the 7 audits for which Interim Reports were issued

- 1 was a Key Financial Audit;
- 1 was a Corporate Audit;
- 5 were Other Audits.

28. These 7 suspended audits will be included in the 2020/21 Audit Programme and their scope will include re-examining the audit work done to date and the current situation at the time of the new audit.

## **Audit Opinions**

29. Of the 20 audits completed in 2019/20:

- 6 were Key Financial Audits;
- 4 were Corporate Audits;
- 10 were Other audits.

30. Our audit opinions are formed on the basis of the number of recommendations made and level of risks associated with them.

31. The table reproduced at appendix A shows the audit work undertaken; the potential audit days allocated to each audit; the actual audit days taken to complete the 2019/20 audit work; the audit opinions formed and the number of recommendations made as a result of our audit work.

32. For the 20 audits in the 2019/20 audit programme on which an opinion has been given, 60 recommendations have been made to improve the Council's control environment. This is in comparison with the 58 recommendations made in the 22 completed 2018/29 audits and 70 recommendations made in the 20 completed 2017/18 audits.

33. The 60 recommendations arising from our 2019/20 audit work were assessed as follows:

- 2 recommendations were assessed as risk level FOUR;  
*(Fundamental and requiring immediate attention and priority action)*
- 28 recommendations were assessed as risk level THREE;  
*(Significant that should be addressed within six months)*
- 27 recommendations were assessed as risk level TWO;  
*(Important that should be addressed within twelve months)*
- 3 recommendations were assessed as risk level ONE.  
*(Merit attention and would improve overall control)*

34. For the 20 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 as:

- An opinion of LITTLE ASSURANCE was given for 2 audits;
- An opinion of LIMITED ASSURANCE was given for 2 audits;

- An opinion of SATISFACTORY ASSURANCE was given for 6 audits;
  - An opinion of SUBSTANTIAL ASSURANCE was given for 10 audits.
35. For the 6 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:
- An opinion of LIMITED ASSURANCE was given for 1 audit;
  - An opinion of SATISFACTORY ASSURANCE was given for 1 audits;
  - An opinion of SUBSTANTIAL ASSURANCE was given for 4 audits.

### **Little and Limited Assurance Opinions**

36. An opinion of LITTLE ASSURANCE was given in the report issued for the audit of Corporate Equality and Diversity 2019/20 in which we made 9 recommendations:

- 7 recommendations at risk level THREE
- 2 recommendations at risk level TWO

At 30 June 2020, due to the Covid-19 emergency the implementation dates for these recommendations were reviewed and amended; all recommendations are expected to be implemented by their revised due dates in 2020/21.

37. An opinion of LITTLE ASSURANCE was given in the report issued for the audit of Business Continuity & Emergency Planning 2019/20, in which we made 9 recommendations:

- 2 recommendations at risk level FOUR
- 6 recommendations at risk level THREE
- 1 recommendations at risk level TWO

At 30 June 2020, 1 of the recommendations had been implemented and due to the Covid-19 emergency the implementation dates for the remaining recommendations were reviewed and amended; all recommendations are expected to be implemented by their revised due dates in 2020/2.

38. An opinion of LIMITED ASSURANCE was given in the report issued for the audit of Human Resources 2019/20 in which we made 9 recommendations:

- 3 recommendations at risk level THREE
- 6 recommendations at risk level TWO

At 30 June 2020, due to the Covid-19 emergency the implementation dates for these recommendations were reviewed and amended; all recommendations are expected to be implemented by their revised due dates in 2020/21.

39. An opinion of LIMITED ASSURANCE was given in the report issued for the audit of Licensing 2019/20, in which we made 7 recommendations:

- 3 recommendations at risk level THREE
- 4 recommendations at risk level TWO

At 30 June 2020, 1 of the recommendations had been implemented and due to the Covid-19 emergency the implementation dates for the remaining recommendations were reviewed and amended; all recommendations are expected to be implemented by their revised due dates in 2020/21.

### Overall Audit Opinion

40. In determining the overall audit opinion given for the year, the factors in paragraphs 23 to 29 have been taken into consideration and weighted accordingly.

**41. Based upon the results of work undertaken during the year, it is the Internal Audit Manager's overall opinion that the Council has in place satisfactory and effective governance, risk management arrangements and control processes. Where there have been significant issues these have been accepted by Management and promptly corrected.**

### Implementation of Internal Audit Recommendations

42. 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.

43. All recommendations, agreed management action and timetable for implementation are input into Pentana for Internal Audit management purposes.

44. 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.

45. 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.



46. Members of the Governance, Audit & Performance Committee received copies of all audit Terms of Reference and Final Reports.
47. Of the 60 recommendations made in Audits from the 2019/20 Audit Programme to date:
- 15 have been implemented;
  - 45 have yet to reach their due date and will continue to be monitored through Pentana with progress reported to this Committee during 2020/21.

### **Effectiveness of Internal Audit**

48. 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.
49. 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.
50. An External Quality Assessment of the performance of Internal Audit and its conformance with the PSIAS was undertaken in September 2017, this 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.
51. A Quality Assurance Improvement Plan was put in place; however resource issues resulted in implementation of only 3 recommendations during 2018/19. At 31 March 2020 a further 10 recommendations have been implemented and the service will work towards implementing the remaining 2 recommendations (relating to updating of the Internal Audit Manager Job description and the Internal Audit Manual) during 2020/21.
52. 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. Based on the Post Audit Feedback forms returned, the average scores for 2019/20 audits completed were:
  - 86% satisfaction on the way the audit was conducted, the report, recommendations made and
  - an overall satisfaction rating of 4.5 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.

### **Conformance with the Public Sector Internal Audit Standards (PSIAS)**

53. In line with good practice, the Internal Audit service should on an annual basis ensure it conforms with the 2017 Public Sector Internal Audit Standards (PSIAS), notifying the Audit and Standards Committee of any areas of non-compliance.
54. During 2019/20 there have been no significant changes in the way the Internal Audit service is delivered or operates, the Internal Audit Manager has not taken on any additional responsibilities that could compromise the service's independence and objectivity and all Internal Audits have been conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.
55. It is considered that the Internal Audit service remained in conformance with the PSIAS during 2019/20.

### **Organisational Independence**

56. During 2019/20 Internal audit reported to the Assistant Director of Governance and Legal (Monitoring Officer) for day to day management but had direct and unrestricted access to all corporate & senior management and the Governance, Audit & Performance Committee.
57. It is considered that the Internal Audit service is organisationally independent and that the independence of Internal Audit has not been compromised during 2019/20.

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

58. The current Internal Audit Charter was reported to and approved by the Governance, Audit & Performance Committee on 15 November 2018. A revised Internal Audit charter was expected to be presented for approval to the Committee at the cancelled March 2020 meeting; a further revised Internal Audit Charter is expected to be presented to the Committee during 2020/21.

59. Based on the information provided in this report on the completion of the 2019/20 Internal Audit Programme, it is considered that the requirements of the Charter were met during the year.

## Risk Analysis

60.

Risk	Likelihood	Impact	Mitigating actions
No internal audit assurance is provided to those charged with governance	1 Internal Audit work programme for 2019/20 is reviewed and updated during the year to ensure minimum level of audits undertaken to provide meaningful assurance	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 Corporate management and Members.

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.