INTERNAL AUDIT ANNUAL REPORT INCLUDING PROGRESS REPORT JANUARY TO MARCH 2019

Cabinet Member for Finance & Democratic Services

Date:	24 July 2019
Agenda Item:	9
Contact Officer:	Kerry Beavis
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Key Decision?	**NO**
Local Ward Members	

AUDIT & MEMBER STANDARDS COMMITTEE

1.   Executive Summary

1.1   To report on the activity and performance of the Internal Audit section for the 2018/19 financial year.

2.   Recommendations

2.1   That the Annual Report of Internal Audit for 2018/19 is noted.

₂.3.   Background

3.1   The Annual Report for Internal Audit details the work completed during 2018/19. The purpose of this report is to express an opinion of the soundness of the governance, risk management and control environment and highlight any controls issues relevant for inclusion in the Annual Governance Statement. The overall opinion for the whole financial year is summarised below.

Based on the ongoing work carried out by and on behalf of Internal Audit and other sources of information and assurance, I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the organisation's Risk Management, Control & Governance processes.

Overall in my opinion, based upon the reviews performed for the 2018/2019 year the Authority has:
  - adequate risk management arrangements;
  -adequate governance; and
  - adequate control processes.

The Annual Report is attached as **Appendix 1**.

3.2

Specific Issues

No specific issues have been highlighted through the work undertaken by Internal Audit during 2018/19.

Alternative Options	1. None.
Consultation	1. The progress report has been discussed and agreed with the Council's S151 Officer.
Financial Implications	1. None arising from this report.
Contribution to the Delivery of the Strategic Plan	1. Internal Audit aims to support the Strategic Plan by providing an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations
Equality, Diversity and Human Rights Implications	1. None arising from this report.
Crime & Safety Issues	1. None arising from this report
GDPR/Privacy Impact Assessment	1. N/A

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Audit Plan becomes unachievable	Continuous review to ensure target is achieved	Green
B	Audit Plan becomes irrelevant	Continuous review to ensure any issues that become high risk during the year are included in the Plan	Green

Background documents

Relevant web links

ANNUAL REPORT OF INTERNAL AUDIT

2018/19

| Audit Manager | *April 2019* |

ANNUAL REPORT OF INTERNAL AUDIT 2018/19

INTRODUCTION.

The purpose of this report is to:

➤ provide the Chief Executive and the Head of Finance & Procurement, as S151 Officer, with an internal audit opinion of the soundness of the governance, risk management and control arrangements based on the work undertaken during the year;

➤ summarise internal audit's activity;

➤ raise any particular issues arising from that work;

➤ compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance targets; and

➤ comment upon compliance with the Public Sector Internal Audit Standards (PSIAS), which came into effect on 1st April 2013.

OVERALL OPINION.

I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the organisation's risk management, control and governance processes. .

Overall my opinion, based upon the reviews performed during the 2018/19 financial year, the organisation has:

- Adequate and effective risk management arrangements;
- Adequate and effective governance; and
- Adequate and effective control processes.

BACKGROUND.

Accounts and Audit [England] Regulations 2015 require every Local Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance process taking into account the PSIAS.

Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve an organisation's operations.

Each Director/Head of Service is responsible for maintaining a sound system of internal control within their Directorate/Service Area.

Internal Audit must ensure that all activities of the Council are subject to an internal audit review. The identification of these activities is agreed between the Audit Manager and Directors taking into account perceived priorities and risk. The annual audit plan for 2018/19 was produced using a full risk assessment and was approved by the Audit & Member Standards Committee in March 2018.

Internal Audit's findings are reported to Members and Officers in line with the Internal Audit Protocol.

COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

New Public Sector Internal Audit Standards have been introduced, which replace the CIPFA Code of Practice with effect from April 2013. Therefore we now measure compliance with these Standards.

An external quality assessment was completed in 2017 which showed that the Internal Audit Service was on the whole compliant with the Standards. A self-assessment against the Standards has been completed in 2018/19, and the service remains compliant with the Standards.

CONTRIBUTION TO THE ANNUAL GOVERNANCE STATEMENT

The Chief Executive and Leader of the Council are required by the Accounts and Audit [England] Regulations 2015 to sign an Annual Governance Statement (AGS). The AGS describes the Council's control framework, the process for evaluating business risk and procedures applied to manage those risks. The internal audit plan seeks to assess the effectiveness of key systems (financial and non-financial) and thereby provides one of the sources of assurance the Council draws upon when considering the AGS. Other sources of assurance could include:

➢ the work of External Audit,
➢ monitoring and review of internal controls as an integral part of the risk management process,
➢ the statutory functions undertaken by the Chief Financial Officer and Monitoring Officer,
➢ results of corporate governance processes, e.g. performance reporting,
➢ reviews of other Agencies and Inspectorates, e.g. health and safety. Internal review agencies may include benefit fraud investigation units.

In 2018/19, there were no reviews which resulted in a 'no assurance' opinion from Internal Audit.

INDEPENDENCE OF THE INTERNAL AUDIT ACTIVITY

Attribute Standards 1110 to 1130 in the Public Sector Internal Audit Standards require that Internal Audit have organisational and individual independence and specifically state that the Audit Manager must confirm this to the Audit & Member Standards Committee at least annually.

The Audit Manager confirms that Internal Audit is operating independently of management and is objective in the performance of internal audit work.

DEVELOPMENTS DURING 2018/19

During 2018/19, Internal Audit has carried out the following:

• Completed the annual risk based plan in accordance with the Public Sector Internal Audit Standards.

- Produced a Quality Assurance and Improvement Programme.

- Given an assurance opinion for each audit completed based upon Internal Audit's assessment of the control environment.

- Reported regularly to the Audit & Member Standards Committee on progress against the plan.

- Continued to work with management to develop risk management.

- Provide an opinion on the internal control environment for the Annual Governance Statement.

DEVELOPMENTS FOR 2019/20

The work of Internal Audit will continue to be driven by the regulatory requirement of local government finance and the corporate and operational risks facing the Council. The Service is always looking to continuously improve its service and add value to management through regular audit to improve governance, risk management and controls. During 2019/20 we will complete the following:

- Comply with the Public Sector Internal Audit Standards (PSIAS).

- Complete the audit plan and comply with the service performance indicators.

- Continue to work with management to improve risk management.

- Complete service enhancements to provide an efficient service.

PERFORMANCE OF INTERNAL AUDIT

The following table details the performance of the Internal Audit Section against the performance targets set for 2018/19

Performance indicator	Target for 2018/19	Performance achieved at year end	Target achieved
Percentage of Annual Plan Completed	90%	96%	Yes
Number of Recommendations Made/Accepted	90%	95%	Yes
Number of Recommendations Implemented/Partially Implemented at time of follow up review.	76%	96%	Yes
Average scores achieved on customer satisfaction questionnaires	4	4.08	Yes

PROGRESS MADE AGAINST THE AUDIT PLAN

Details of the work carried out by Internal Audit during 2018/19 can be found below.

This year, the Internal Audit Section has achieved 96% of the revised Internal Audit Plan (96% in 2017/18). This is above the performance indicator included in the Services performance targets (90%). Five audits (Income Management, Property Leases & Charges, Public Sector Network, Mobile Phones and Taxi Licences) have been postponed at management's request due to imminent system changes and have been moved to the next financial year. Four audits (Disabled Facilities Grants Assurance work, Transparency Code, Web Expenses & Housing Benefit Memorandum of Understanding) have been added to the current financial years plan. Further details can be found in **Annex A**.

In addition to planned audit work, we have not undertaken any special investigations during the year.

NUMBER OF RECOMMENDATIONS MADE/ACCEPTED

At the conclusion of every audit, an audit report is issued to management detailing the findings of the audit review, together with any recommendations, required to be implemented, to address any weaknesses identified.

The Internal Audit Section made 94 recommendations during the year, 95% of which (89) have been agreed by management for implementation. The level of acceptance of audit recommendations exceeds the performance indicator included in the services performance targets (90%).

30/31 (97%) of recommendations made were agreed for the period January to March 2019. One recommendation not agreed related to the PR & Communications audit and was for the requirement of a Communications Strategy, but it was felt that the Communications Service Plan was considered adequate.

NUMBER OF RECOMMENDATIONS IMPLEMENTED BY MANAGEMENT

Follow up reviews are undertaken to ensure that appropriate action has been taken by management in response to the recommendations made. The percentage of agreed recommendations implemented/partially implemented by management at the time of the follow up review at the end of the year was 96% (90% in 2017/18). The target set for 2018/19 was 76%. Details of these reviews are reported as part of the progress reports. **Annex B** details the overall summary for the year.

Recommendations implemented - January to March 2019
Internal Audit revisits areas it has audited around 6 months after agreeing a final report on the audit, to test and report to management on the extent to which agreed actions

have been implemented. Details of the implementation reviews and the status of the agreed management actions are summarised below.

First Implementation Review Area	High			Medium		
	Fully	Partially	Not	Fully	Partially	Not
CIL/S106		1		5	2	
Housing Benefit Overpayments				4	1	1
TIC				6	2	1
Car Parking				1	2	
Safeguarding (MCA)					3	
Total		1		16	10	2

Second Implementation Review Area	High			Medium		
	Fully	Partially	Not	Fully	Partially	Not
CCTV	6	2		2	1	
Total	6	2		2	1	

Internally Audit is fairly satisfied with the progress made by management to reduce the level of risk and its commitment to progress the outstanding issues. There are 2 high priority actions outstanding following the second implementation review of CCTV which relate to, finalising the draft operational procedures for the control room and finalising and publishing the 2017/18 annual review (as required by the Code of Practice) on the Council's website.

During 2018/19 all recommendations included in audit reports were prioritised as either high, medium or low risk. This enables managers to prioritise their resources to address those recommendations, which have been identified as high risk first. This also enables more meaningful information to be produced regarding the implementation of recommendations. Low risk recommendations have a negligible impact on the system of control and as such are not reviewed in the follow up review.

The Internal Audit Protocol only requires two follow up reviews to be undertaken. Should any recommendations be outstanding at the time of the second follow up review, then no further action will be undertaken by internal audit, but instead management accept the risk for non-implementation of any outstanding recommendations. The recommendations remain active on the Pentana system.

CUSTOMER SATISFACTION QUESTIONNAIRES

Management's views are sought at the conclusion of each audit by the issue of a Customer Satisfaction Questionnaire. This requires management to give a satisfaction rating of between 0 and 5. Our target score is 4.00.

Eight Customer Satisfaction Questionnaires were returned during the year. The average score for these was 4.08 (4.16 in 2017/18). The Performance Indicator is 4.00 therefore the Internal Audit Section is above the target set.

Customer Satisfaction Questionnaires

INTERNAL AUDIT COVERAGE

This section briefly summarises the audit work carried out during the 2018/19 financial year for which detailed reports have been submitted and replies have been received unless otherwise indicated. Discussions have been held with the relevant staff during the preparation and completion of audit reports submitted.

For each audit carried out Internal Audit arrives at a conclusion that assesses the level of assurance that can be placed on the system of internal control being reviewed in one of four categories. The category reflects the assessment of the robustness of the internal control environment with an opinion on whether the actual controls in place are being consistently applied. The categories of assurance are detailed in the table below.

Category	Category Description
Substantial Assurance	Audit are pleased to be able to report substantial assurance can be given that the system, process or activity should achieve its objectives safely and effectively and that controls are in place and operating satisfactorily.
Adequate Assurance	Audit are pleased to be able report reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively, however, there are some control weaknesses but most key controls are in place and operating effectively.
Limited Assurance	It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.
No Assurance	It is with some concern that Audit has to report no assurance can be given that the system, process or activity will achieve its safely and effectively as controls are not in place or are failing.

In addition, the recommendations made in internal audit reports (action plans) have been placed into one of TWO categories, namely:

Red priority recommendations will be made if one of the following criteria is met:

1. Adversely affects the Annual Governance Statement;

2. Results in significant loss of funds or assets;

3. May lead to service delivery failures which could adversely affect the Council's reputation;

4. Shows non-compliance with statutory requirements, the Council's Constitution, Codes or Policies and or any Cabinet approved initiatives;

5. Changes the effectiveness of key controls;

6. Significant opportunity exists for real gains in processing efficiency;

7. Poor cost controls or potential for significant savings and/or revenue generation;

8. Significant impact environmentally, socially or economically.

All other recommendations that do not meet the above criteria will be classed as amber priority recommendations, unless they are green (low) priority which will be discussed with management but will not appear in the final report.

CONCLUSION

This report summarises the areas covered by Internal Audit during 2018/19. Internal Audit staff have worked with staff of the Council to ensure internal control is properly maintained and that systems are appraised, and, where appropriate, improved.

It is pleasing to note that the Internal Audit Section has made good progress this year in relation to its targets, achieving all of the targets, which we monitor ourselves against.

RISK MANAGEMENT

The Council has a Risk Management Strategy in place which was revised in 2018. The progress in implementing this Strategy has been reported to the Audit & Member Standards Committee each quarter.

Risks are identified, analysed, prioritised and monitored as part of the Council's risk management process.

Internal Audit have reviewed the risk management process, and as such the Risk Management Strategy will continue to be reviewed and updated and increased use of the Pentana risk management system will be completed.

OVERVIEW OF INTERNAL AUDIT ARRANGEMENTS.

The External Auditor (Grant Thornton) reviews the work undertaken by the Internal Audit Section to ensure that reliance can be placed upon its work when giving their opinion on the accuracy of the financial statements. We are pleased to report that there has been a positive response to our work and that the External Auditor has stated:

"Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.

Our review of internal audit work has not identified any weaknesses which impact on our audit approach"

Audit Plan 18/19 Status

www.lichfielddc.gov.uk

Audit Status Description
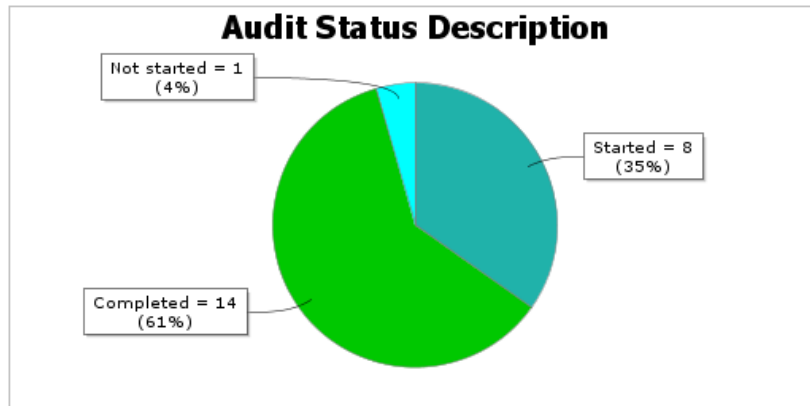
Title	Audit Status	Audit Assurance Type	Audit Assurance Level
Fraud Awareness/ Proactive work	Completed		
Treasury Management	Completed	System based review	✅✅
BACS	Completed	System based review	✅✅
Data Protection/Data Quality (GDPR)	Started	System based review	
Elections	Started	Risk based review	
Scheme of Delegation	Started	Risk based review	
Service Desk	Started	Risk based review	
Application Controls	Started	Risk based review	
Members/ Officers Allowances	Completed	System based review	✅✅

| Title	Audit Status	Audit Assurance Type	Audit Assurance Level
Lichfield Connects	Completed	System based review	✅✅
Strategic Housing	Started	System based review	
Homelessness	Started	System based review	
Land Charges	Completed	System based review	✅
Car Parking	Completed	System based review	✅✅
LA Trading Company	Not started		
Pension Assurance Work	Completed	Transactional	
DFG Assurance work	Completed	Additional system based review	✅✅
Transparency Code	Started	Additional system based review	
Corporate work – Web expenses	Completed	Additional risk based review	
HB Memorandum of Understanding	Completed	Additional system based review	✅✅

Audits completed during Jan – Mar 2019

Title	Audit Status	Audit Assurance Type	Audit Assurance Level
Accounting & Budgetary Control	Completed	System based review	✅✅
GIS	Completed	System based review	⚠️
Proms – cash	Completed	Additional system based review	⚠️
17/18 PR & Communications	Completed	System based review	⚠️

Audit Assurance levels	
Substantial	✅✅
Adequate	✅
Limited	⚠️
None	🛑

Implementation Reviews Status Total 2018/19
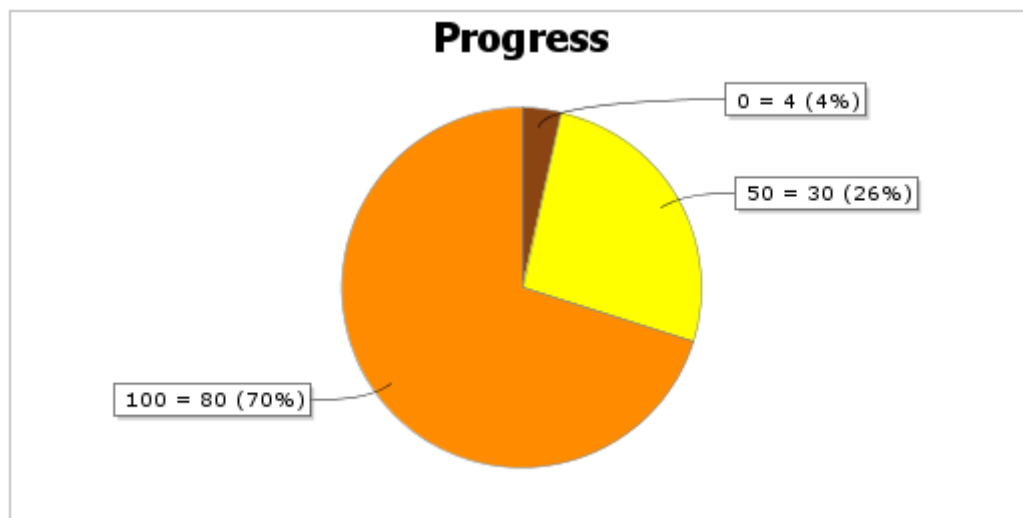
Recommendation % complete	Number	% of total
100% (fully)	80	70%
50% (partially)	30	26%
0% (not completed)	4	4%