



Carlisle City Council

Report to Audit Committee

Report details

Meeting Date:	8 July 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	Yes/No
Public / Private	Public
Title:	INTERNAL AUDIT ANNUAL REPORT 2021/22
Report of	DESIGNATED HEAD OF INTERNAL AUDIT
Report Number	RD 22/22

Purpose / Summary:

This report provides a summary of the outcomes of the work undertaken by Internal Audit for Carlisle City Council in 2021/22 and includes the Designated Head of Internal Audit's opinion on the effectiveness of the Council's arrangements for risk management, governance and internal control in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS).

Recommendations:

Members are requested to note

- (i) The progress achieved in 2021/22 in delivering the Audit Plan and the outcomes of completed audit reviews as set out at **Appendix A**;
- (ii) The Designated Head of Internal Audit's opinion of **reasonable assurance** on the Council's overall systems of governance, risk management and internal control for the year ended 31 March 2022;
- (iii) The Designated Head of Internal Audit's declaration of Internal Audit's independence as required by the mandatory PSIAS;
- (iv) The Designated Head of Internal Audit's declaration of conformance with the mandatory PSIAS;
- (v) The performance of the Internal Audit service as shown at **Appendix B**;

Tracking

Audit Committee	8 July 2022

1. Background

- 1.1 Local Authorities are required to make proper provision for internal audit in line with the Local Government Act 1972. The Accounts and Audit Regulations 2015 require that the Council undertakes an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards (PSIAS).
- 1.2 Internal Audit is responsible for providing independent assurance to the Council's Senior Management and to the Audit Committee on the systems of governance, risk management and internal control.
- 1.3 It is the responsibility of management to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and that outcomes are achieved. Management is responsible for the system of internal control and should set in place policies and procedures to ensure that controls operate effectively.

2. Internal Audit Opinion

- 2.1 The purpose of this report is to give my opinion as the Designated Head of Internal Audit on the adequacy and effectiveness of the Council's systems of risk management, governance and internal control from the work undertaken by Internal Audit for the year ended 31 March 2022. This annual opinion is a requirement of the PSIAS.
- 2.2 This report is a key contributor to the Council's Annual Governance Statement.
- 2.3 In giving this opinion it should be noted that assurance can never be absolute and it is not possible to give complete assurance. My opinion is based on the work undertaken by Internal Audit during the year, including the outcomes of any follow up work undertaken.
- 2.4 I am satisfied that sufficient internal audit work has been undertaken to allow me to give a conclusion on the adequacy and effectiveness of risk management, governance and internal control. I can also confirm that in making this opinion I do not see any reason, based upon the completed audit work in year, that I need to report any limitation in scope.

2.5 In my opinion, based on the completed audit work, the overall framework of governance, risk and internal control is **reasonable** and audit testing has confirmed that controls are generally working effectively in practice, although as detailed below there are specific control concerns in relation to ICT services and general concerns about Council resources.

2.6 The internal audit team have been working from home for the full year and have delivered audits mainly through remote contact with auditees. The team have had a long-term sickness absence for a significant portion of the year, but have still completed 26 of the 32 (81%) proposed reviews within the plan.

2.7 At the end of the year, the Audit Services Manager resigned to take up a joint position with Allerdale and Copeland. With the impending move to LGR, an agreement was reached that allowed a sharing of the Manager resource with both authorities and this was communicated to the Committee in March.

3. Significant issues (ICT Services)

3.1 Concerns around ICT controls due to various vacancies within the department, including the Head of Service and limited progress in implementing historic recommendations was first raised in 2019/20.

3.2 These concerns remain for 2021/22. The team has continued to run at approximately half capacity during the year and the Head of Service post remained vacant due to maternity leave. Recruitment exercises to key posts were not successful. This has limited the team's ability to address outstanding actions, resulting in the limited progress identified in the formal follow-up of outstanding recommendations within ICT Services.

3.3 The team's limited resources has impacted on its ability to proactively manage cyber-security threats, whilst the threat of an attack continues to increase. Cyber Security remains one of the top global risks for all organisations. An audit of cyber security in the year provided partial assurances, which has been linked to the resource shortages within the team and the reactive nature of subsequent service provision as a result. The report also acknowledges the hard work, knowledge and dedication of the service.

3.4 The impact of Local Government Re-Organisation continues to be a particular pressing resource issue for ICT Services as the service area is fundamental to ensuring a safe and legal transition to the new councils.

3.5 Internal Audit will continue to work closely with the team to progress implementation of outstanding recommendations and devise a new assurance programme going forward into 2022/23.

4. Significant issues (Other)

4.1 Various resource pressures continue to impact on the Council's potential to adequately manage its risk environment.

4.2 Local Government Re-Organisation has had a significant pull on senior and service manager's time. Further resource demands to process payments to the public in respect of the pandemic and more recently the cost-of-living payments and significant ongoing projects also contribute towards these resource pressures.

4.3 There is a risk that managers are required to prioritise workloads, resulting in the potential for established controls to be missed or circumvented.

4.4 These additional pressures have also notably reduced client engagement with Internal Audit, with many teams struggling to respond to requests for information.

4.5 These issues have been exacerbated further due to shortages within the recruitment market, which has seen a number of key posts in the authority vacated in the last 12 months with difficulties in replacing these posts (partly due to uncertainty around local government re-organisation).

5. Independence

5.1 I can confirm that Internal Audit has maintained its independence during the year. In my dual role as Head of Financial Services and Designated Head of Internal Audit I can confirm that my independence and that of Internal Audit has not been in any way diminished by this working arrangement (the External Quality Assessment (Apr 2018) and annual self-assessment (June 2022) confirmed that suitable arrangements are in place to maintain audit independence). Where necessary, audit reports in relation to financial services activities have been reviewed by the Principal Auditor, and all findings reported to the Corporate Director of Finance and Resources where necessary.

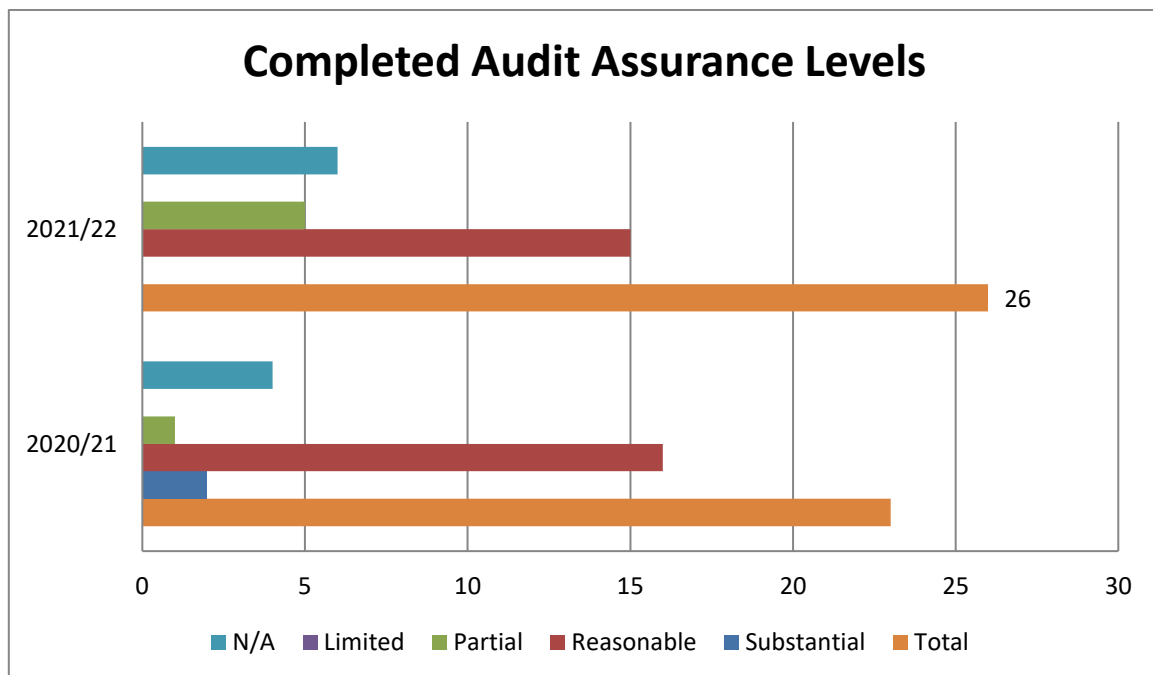
6. Internal Audit Coverage and outcomes

6.1 The Internal Audit Plan was approved by the Audit Committee at its meeting on 15 March 2021 and included 29 planned reviews. As a result of changes in the risk and assurance environment, disruption as a result of the pandemic, vacancies and a long-term absence in the team the following amendments were made to the plan during the year.

- Carry Forward Neighbourhood Services Culture Review (approved 8 July 2021)
- Carry Forward Community Centres Review (approved 8 July 2021)
- Carry Forward Property Income Review (approved 8 July 2021)
- Include review of Corporate Governance Internal Controls (approved 8 July 2021)
- Remove review of Street Cleaning (approved 8 July 2021)
- Defer follow-up review of Absence Management (approved 8 July 2021)
- Include follow-up review of ICT Recommendations (approved 8 July 2021)
- Include review of National Fraud Initiative (approved 8 July 2021)
- Defer review of Fleet Management Strategy (approved 10 December 2021)
- Remove review of Job Evaluation (approved 10 December 2021)
- Remove review of Advice Agencies (approved 10 December 2021)
- Remove consultancy review of e-purchasing (approved 10 December 2021)
- Remove review of building maintenance (requested 8 July 2022)

6.2 Following these changes there were 26 planned reviews in the revised 2021/22 plan. It is my opinion that sufficient audit work has been completed that I may provide an overall audit opinion.

6.3 Of the 26 completed audits, the overall assurances are as follows:



6.4 The table at **Appendix A**, provides the detail of the Audit work completed and shows when reports were considered by the Audit Committee.

6.5 The following unplanned work was also undertaken and considered as part of internal audit's opinion:

- Completion of annual self-assessment and review of audit manual and working papers to update working practices;
- Annual self-assessment of compliance with Public Sector Internal Auditing Standards.
- Audit advice to risk register owners to help improve consistency with completion of risk registers.
- Audit advice to Human Resources in relation to receiving confidential information from external providers.
- Certification audit in accordance with funding requirements for Central Government grant to support Compliance and Enforcement of Covid-19 regulations.
- Confidential fraud investigation (ongoing)
- Audit advice to Accountancy Services in relation to proposed changes to systems and processes following removal of cheque printing facility.
- Audit advice to Revenues and Benefits in relation to implementing controls in relation to the Council Tax rebates following issue of government guidance
- Attendance at LGR workshops relating to Internal Audit service provision

7. Other Assurances

7.1 The Council also receives assurance from other sources and during 2021/22 the following assurances to the way the Council operates have been provided:

- LEXCEL Accreditation (Legal Services)
- Public Sector Network ICT Health Check
- Benefit Advice Service (External Assessment)
- Internal work performed by Council's Safety, Health & Environmental Manager and Information Governance Manager
- Attendance at monthly management briefings, regular staff briefings and corporate communications
- Regular summary updates of key Council meetings.
- Self-assessment questionnaires completed for both main accounting systems not audited in the year and general directorate assurances.

7.2 The 2020/21 Statement of Accounts were approved in November 2021.

8. Statement of Conformance with Public Sector Internal Audit Standards

8.1 The Internal Audit manual includes a (QAIP) Quality Assurance and Improvement Plan that details how Internal Audit ensure continuous improvement in line with the

Public Sector Internal Audit Standards and a methodology designed to ensure all internal audit work is conducted in accordance with the standards.

- 8.2 All audit work has been conducted in line with the agreed QAIP and Internal Audit work is subject to quality assurance checks by internal audit management, to ensure the approved methodology is followed.
- 8.3 A set of performance indicators was established and agreed by the Audit Committee to enhance performance monitoring arrangements. The Audit Committee has received progress against these performance measures as part of the in-year reporting arrangements and **Appendix B** summarises the year-end performance against these.
- 8.4 The Internal Audit team was subject to an external quality assessment of their compliance with the Public Sector Internal Audit Standards in April 2018. The assessment found that the department conforms with all the standards. Recommendations made following this review have all since been implemented and the department continue to perform annual self-assessments against the standards and have adopted a continuous improvement register to identify areas for further development, which will be progressed on a regular basis and reported to the Audit Committee.

9. Conclusion and reasons for recommendations

- 9.1 Internal Audit work has been carried out in accordance with the mandatory standards for internal audit.
- 9.2 The work of internal audit is considered to be sufficient to provide an overall opinion on the systems of governance, risk management and internal control
- 9.3 Internal audit has maintained its independence in order to provide a fair and objective annual opinion statement
- 9.4 The annual opinion has concluded **reasonable** assurance over the systems of governance, risk management and internal control.

10. Contribution to the Carlisle Plan Priorities

- 10.1 Internal Audit provides independent assurance on the Council's arrangements for governance, risk management and internal control in support of delivery of the Council's strategic priorities

Contact details:

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Appendices attached to report:

- **Appendices attached to report:**
 - Appendix A – Summary of Internal Audit Work**
 - Appendix B – Internal Audit Performance 2021/22**

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- **None**
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CORPORATE IMPLICATIONS:

Legal - The legislative background is helpfully set out in section 1 of the report. The PSIAS requires the Designated Head of Internal Audit to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

Property Services – None

Finance – Contained in the report

Equality – None

Information Governance - None

CARLISLE CITY COUNCIL - AUDIT WORK 2021/22

Service Area	Review Type	Audit Area	Plan	Actual	Status	Audit Committee	Assurance Evaluation	Comments
Financial Services	MFS	Internal Control Questionnaires - Non Audited Systems	2	2	Final	N/A	N/A	
Health & Well-being	VFM	Small grant payments (Community Services)	10	9	Final	Sep 21	Reasonable	
Council-wide	Governance	Good Governance Principles / Local Code of Conduct	5	8	Final	N/A	N/A	
Health & Well-being	Directorate	Community Centres	20	22	Final	Sep 21	Reasonable	
Council-Wide	Corporate	Environmental Strategy	20	22	Final	Dec 21	Reasonable	
Neighbourhood Services	Directorate	Neighbourhood Services (Culture Review)	15	27	Final	Dec 21	Partial	
Council-Wide	Counter-Fraud	Annual fraud review	5	5	Final	Dec 21	N/A	
Regulatory Services	Directorate	Disabled Facilities grants	10	11	Final	Dec 21	Reasonable	
Council-Wide	Corporate	Corporate Internal Controls	5	5	Final	Dec 21	Reasonable	
Organisation Development	Directorate	Workforce Development and Training (inc Workforce Strategy and e-learning)	20	21	Final	Mar 22	Reasonable	
Financial Services	MFS	Financial Services Governance Arrangements	5	5	Final	Mar 22	Reasonable	
Revenues and Benefits	Counter-Fraud	Covid Grants	20	22	Final	Mar 22	Partial	
Council-Wide	Corporate	Scheme of delegation	5	5	Final	Mar 22	N/A	
Property Services	Directorate	Property Income	15	23	Final	Jul 22	Partial	
Community Services	Directorate	Sands Centre Redevelopment	20	24	Final	Jul 22	Reasonable	
Revenues & Benefits	MFS	Council Tax	20	21	Final	Jul 22	Reasonable	
Council-Wide	Counter-Fraud	National Fraud Initiative	10	10	Final	Jul 22	N/A	
Council-Wide	Consultancy	Business Continuity & Emergency Planning	10	4	Final	Jul 22	N/A	

Service Area	Review Type	Audit Area	Plan	Actual	Status	Audit Committee	Assurance Evaluation	Comments
Neighbourhood Services	Directorate	Recycling (Perf Info)	10	23	Final	Jul 22	Reasonable	
Development Control	Directorate	Development Control (Complaints procedure)	10	10	Final	Jul 22	Reasonable	
Development Control	Directorate	Future High Street Fund	15	15	Final	Jul 22	Reasonable	
Financial Services	MFS	Creditors (including cheque control)	15	15	Final	Jul 22	Reasonable	
Financial Services	MFS	Main Accounting System & Budget Monitoring (inc MTFP)	15	16	Final	Jul 22	Reasonable	
ICT	Follow Up	ICT Recommendations	5	5	Final	Jul 22	Partial	
Financial Services	Counter-Fraud	Procurement review	10	10	Final	Jul 22	Reasonable	
Digital Services	Directorate	Cyber-Security	20	20	Final	Jul 22	Partial	
Property	Directorate	Building Maintenance	20	0	Mgmt request	Jul 22		
		Follow-up contingency	30	29				
		Counter Fraud Contingency	10	10				
		Advice & Guidance Contingency	10	8				
		Contingency (2020.21)	36	51				
		Audit Committee	16	20				
		Planning & Management	55	69				
		OVERALL TOTAL	494	547				

APPENDIX B**CARLISLE CITY COUNCIL**
INTERNAL AUDIT PERFORMANCE 2021/22

Indicator	Target 20/21	Actual 20/21	Target 21/22	Actual 21/22	Commentary
Planned Audits Completed	90%	88%	90%	81%	
Draft Reports issued by agreed deadline	80%	59%	80%	52%	Covid-19 delays (including vacancy and absence)
Timely issue of Final Reports	90%	95%	90%	100%	
Recommendations agreed	90%	100%	95%	100%	
Assignment completion within allocated resource	60%	58%	60%	65%	
Customer satisfaction survey feedback (scored as good)	90%	100%	90%	100%	
Efficiency (Chargeable time)	80%	69%	80%	80%	Covid-19 delays and recruitment
Recommendations implemented	80%	56%	35%	TBC	Covid-19 delays