

Report to Audit Committee

Agenda
Item:

A.7

Meeting Date: 8 July 2021
Portfolio: Finance, Governance and Resources
Key Decision: Not Applicable:
Within Policy and
Budget Framework YES
Public / Private Public

Title: INTERNAL AUDIT ANNUAL REPORT 2020/21
Report of: Designated Head of Internal Audit
Report Number: RD11/21

Purpose / Summary:

This report provides a summary of the outcomes of the work undertaken by Internal Audit for Carlisle City Council in 2020/21 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 2020/21 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 2021;
- (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 2021
Overview and Scrutiny:	Not applicable
Council:	Not applicable

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 2021. 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, as required by the CIPFA Guidance to Internal Auditors that was published as a result of COVID-19 to address any risks of Heads of Internal Audit Annual Opinions being limited 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 control concerns in relation to ICT services.

3. COVID-19 Impact

- 3.1 The global COVID-19 pandemic that first arose during the first part of 2020 has had a significant impact on the ability to deliver the Internal Audit Plan during the year.
- 3.2 Firstly, the Council's compliance with national guidance and the instruction for all employees to work from home and the requirement for as little social contact as possible curtailed some of the work of the internal audit department and required a re-focusing of the reviews in the Audit plan.
- 3.3 The internal audit team themselves have been working from home for the full year and have delivered audits mainly through remote contact with auditees.
- 3.4 The Committee have been kept abreast of changes to the audit plan as well as progress on individual audits throughout the year, with amendments to the plan being approved at the 18 December meeting and an update on plans to achieve sufficient coverage by continuing to work on 2020/21 audits in the first quarter of 2021/22 being provided at the 15 March meeting.
- 3.5 The team had faced difficulties in completing reviews due to staff turnover and a long-term (covid-related) sickness absence. In order to provide resources to deliver the plan, a temporary resource was appointed in January 2021 and this has helped to complete reviews that may have otherwise not been completed and the team have managed to complete 23 of the 26 (88%) proposed reviews within the plan.
- 3.6 Although there were some difficulties in completing reviews remotely and without direct access to other departments, reviews have progressed well, and reports have been issued and concluded with clients in a timely manner. I appreciate the efforts of the Internal Audit team in achieving the level of coverage that they have.
- 3.7 As well as completion of the plan, Internal audit have also provided guidance and support to other departments around changes to working practices and in providing assurances around the receipt and distribution of COVID funding from Government. These activities will ensure there are still ongoing considerations and controls in place to limit the potential for fraud and error.

- 3.8 The COVID-19 pandemic will have a lasting effect on the way the Council undertakes its business and internal audit will be integral in ensuring there are adequate working controls and governance in place throughout 2021/22 and beyond in order to protect the Council's position.

4. Other Significant Issues

- 4.1 In the 2019/20 internal audit report I maintained concerns around ICT controls. This was due to various vacancies within the department, including the Head of Service and limited progress in implementing historic recommendations (including partial reviews of the Firewall and Mobile Devices).
- 4.2 During 2020/21 the Council appointed a new Head of Service, though progress against filling other vacancies has been limited. A follow-up was performed of all outstanding ICT recommendations and while progress has been noted, six high graded recommendations do remain outstanding.
- 4.3 Internal Audit recognise the hard work, knowledge and dedication of the existing service, including their considerable efforts to ensure the Council could quickly and efficiently adapt to a new way of working through the pandemic. However ongoing vacancies within the team increases the risk exposure to the Council around cyber-security and information security management, especially giving the ongoing global threat to all organisations from cyber-attacks.
- 4.4 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 2021/22, including obtaining assurances from external health checks being undertaken.
- 4.5 The Human Resources team has also experienced significant staff turnover during the year (including service manager), which has resulted in some delays in completing agreed actions to a number of historic audits during 2020/21. However, the team is now fully resourced and Internal Audit are assured that outstanding recommendations are all currently in the process of being actioned.

5. Independence

- 5.1 I can confirm that Internal Audit has maintained its independence during the year. In my dual role as Financial Services Manager 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 (April 2021) 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.

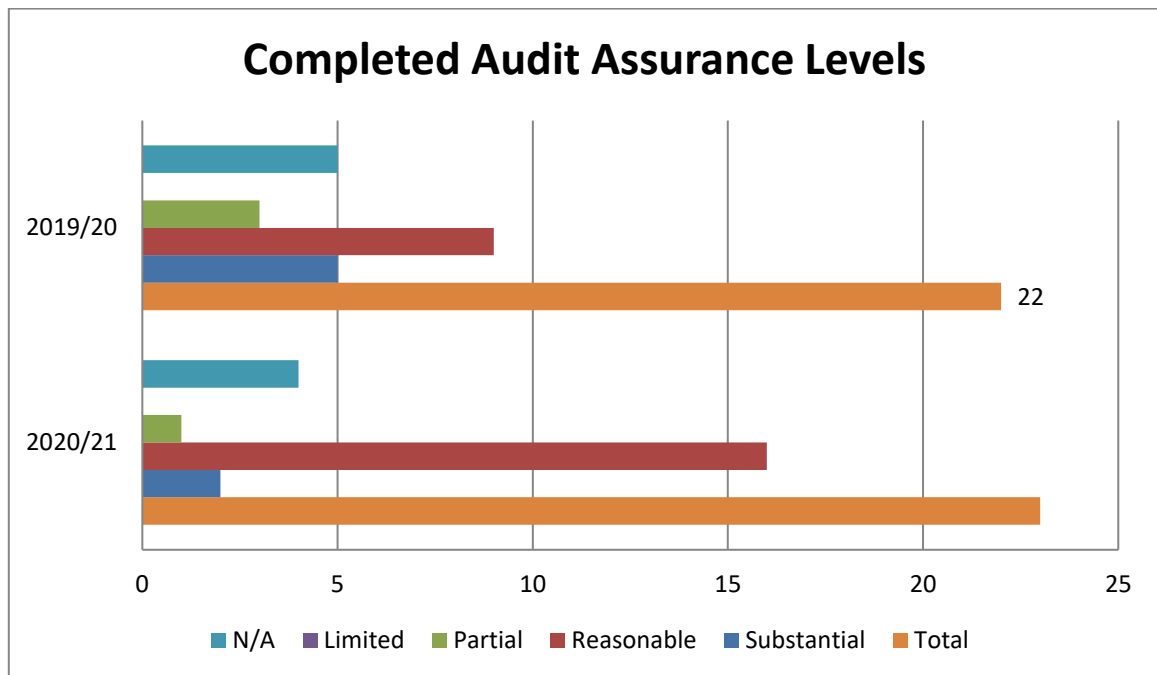
6. Internal Audit Coverage and Outcomes

6.1 The Internal Audit Plan was approved by the Audit Committee at its meeting on 30 July 2020 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.

- Remove Corporate Review of Risk Management (agreed in December 2020 due to assurances placed on external review carried out by Zurich Municipal)
- Remove ICT Specialist Review (agreed in December 2020 as limited added value to be gained)
- Remove consultancy review of Small Business Grants (agreed in December 2020 as limited added value to be gained)
- Carry forward review of Development Control to 2021/22 (agreed in March 2020).

6.2 Following these changes there were 26 planned reviews in the revised 2020/21 plan with 23 completed (2019/20 - 22 completed). It is my opinion that sufficient audit work has been completed that I may provide an overall audit opinion.

6.3 Of the 23 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;
- Counter-fraud lead for Covid-19 grant payments (reviewing ad-hoc queries from fraud intelligence services)
- Review of Counter-Fraud Policy, providing management with suggested amendments/additions;
- Review evidence related to an attempt to de-fraud the Council through falsified Business Rate applications;
- Ad-hoc audit advice to various processes and functions, as reported to Audit Committee on a quarterly basis
- Audit management activity to recruit and induct new staff to vacant Auditor post and temporary Auditor post.
- Attendance at the Operation Risk Management sub-group.

7. Other Assurances

7.1 The Council also receives assurance from other sources and during 2020/21 the following assurances to the way the Council operates have been provided:

- LEXCEL Accreditation (Legal Services)
- Local Government Association Peer Review (delivery of action plan) and Local Government Association Governance review
- Better Health at Work – Gold Award
- Public Sector Network ICT Health Check
- HMRC VAT Review
- Benefit Advice Service Quality Standard
- External Review of Risk Management (Zurich Municipal)
- Audit Committee Effectiveness Review (Internal)
- 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 2019/20 Statement of Accounts were delayed in approval until 20 May 2021 due to concerns raised around the valuation process for Property Plan and Equipment and Investment Properties. However, following the appointment of an external valuer a thorough review of assets was undertaken and the accounts were signed off by Auditors and the Audit Committee on 20 May.

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. Risk Management

- 9.1 The Principal Auditor attends the Risk Management Sub-Group on a monthly basis with members of the Senior Management Team and Service Managers. This group focuses on reviewing operational risk registers ensuring they are consistent, up to date and completed in line with the Council's risk management policy. The group also monitors emerging risks within the authority, taking action to review as required.
- 9.2 An External Review of the Council's Risk Management processes was performed by Zurich Municipal during 2020/21. Findings from this review have contributed to the continuous improvement of the Council's risk management arrangements. Internal Audit have used the findings from the review to inform future testing of risk management across the Council.

10. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 10.1 Internal Audit work has been carried out in accordance with the mandatory standards for internal audit.
- 10.2 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
- 10.3 Internal audit has maintained its independence in order to provide a fair and objective annual opinion statement
- 10.4 The annual opinion has concluded **reasonable** assurance over the systems of governance, risk management and internal control.

11. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 11.1 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

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Designated Head of Internal Audit

Appendices	Appendix A – Summary of Internal Audit Work
attached to report:	Appendix B – Internal Audit Performance 2020/21

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**

CORPORATE IMPLICATIONS/RISKS:

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 2020/21

Service Area	Review Type	Audit Area	Plan	Actual	Status	Audit Committee	Assurance Evaluation
Financial Services / Revenues & Benefits	MFS	Internal Control Questionnaires - Non Audited Systems	2	2	Final	Jul 20	N/A
Council-wide	Governance	Good Governance Principals / Local Code of Conduct	10	11	Final	Jul 20	N/A
Council-wide	Corporate	Environmental Strategy	15	12	Final	Sep 20	Partial
Financial Services	Directorate	Insurance	20	22	Final	Sep 20	Reasonable
Council-Wide	Value for money	Fees & Charges	10	8	Final	Sep 20	Reasonable
Regulatory Services	Directorate	Local Air Quality Management	20	22	Final	Dec 20	Reasonable
Health & Well-being	Directorate	City Centre (inc special events/inspections)	20	28	Final	Dec 20	Reasonable
Financial Services	MFS	Income	15	19	Final	Dec 20	Reasonable
Carlisle Partnership	Value for money	Carlisle Partnership	10	12	Final	Dec 20	Reasonable
Council-wide	Counter	Annual fraud review	5	5	Final	Dec 20	N/A
HR & Payroll	Directorate	Safe recruitment (including health checks etc).	10	13	Final	March 21	Reasonable
Financial Services	MFS	Financial Services Governance Arrangements	3	3	Final	March 21	Substantial
Council-wide	Follow-up	Environmental Strategy	5	8	Final	July 21	Reasonable
Revenues & Benefits	Counter-Fraud	Business Grants (Covid 19)	10	14	Final	July 21	Reasonable
Revenues & Benefits	MFS	Housing Benefits	20	20	Final	July 21	Reasonable

Service Area	Review Type	Audit Area	Plan	Actual	Status	Audit Committee	Assurance Evaluation
Revenues & Benefits	Directorate	Rev & Ben Revenue Recovery	5	6	Final	July 21	Reasonable
Electoral Services	Directorate	Electoral Registration	20	21	Final	July 21	Reasonable
Financial Services	MFS	Debtors	15	15	Final	July 21	Substantial
Financial Services	MFS	Payroll	15	17	Final	July 21	Reasonable
ICT Services	Follow-Up	ICT Various	10	15	Final	July 21	N/A
Council-wide	Follow-up	Driver Checks	5	4	Final	July 21	Reasonable
Regeneration	Directorate	Economic Development Major Funding - Governance	20	22	Final	July 21	Reasonable
Homelessness Services	Directorate	Homeless Accommodation (Part 2)	5	8	Final	July 21	Reasonable
Health & Well-being	Directorate	Community Centres	20	10	C/F 2021/22		
Property Services	Directorate	Property Income	20	13	C/F 2021/22		
Waste Services	Directorate	Waste Services Culture Review	15	3	C/F 2021/22		
Development Management	Directorate	Development Control	0	6	Cancelled (Proposed review in 21/22 plan)		
Council-wide	Corporate	Risk Management	0	0	Removed (Assurances from external review)		
Regeneration	Consultancy	Small business Grants	0	0	Removed (Low Risk)		
ICT Services	ICT	Specialist Review	0	0	Removed (Limited added value)		
Follow-up contingency			10	12			
Counter Fraud Contingency			20	10			
Advice & Guidance Contingency			10	13			
General Contingency			17	19			
Audit Committee			16	16			
TOTAL			398	409			

CARLISLE CITY COUNCIL
INTERNAL AUDIT PERFORMANCE 2020/21

Indicator	Target 19/20	Actual 19/20	Target 20/21	Actual 20/21	Commentary
Planned Audits Completed	80%	79%	90%	88%	
Draft Reports issued by agreed deadline	80%	63%	80%	59%	Covid-19 delays (including vacancy and absence)
Timely issue of Final Reports	90%	93%	90%	95%	
Recommendations agreed	95%	100%	90%	100%	
Assignment completion within allocated resource	60%	62%	60%	58%	
Customer satisfaction survey feedback (scored as good)	90%	100%	90%	100%	
Efficiency (Chargeable time)	80%	83%	80%	69%	Covid-19 delays and recruitment
Recommendations implemented	80%	63%	80%	56%	Covid-19 delays