



## AUDIT & GOVERNANCE COMMITTEE

Monday, 29 June 2020

### ANNUAL INTERNAL AUDIT REPORT 2019-20

#### EXECUTIVE SUMMARY

1. The Annual Internal Audit Report 2019/20 (Appendix A) details the work undertaken by the Internal Audit Service for the year 2019/20 in accordance with the plan for the year presented to both Suffolk Coastal and Waveney District Councils in March 2019.
2. This report is being presented to the Audit & Governance Committee in accordance with the Committee's terms of reference:

*"To consider the Head of Internal Audit's Annual Report: The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement. The opinion of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of work supporting the opinion – these will assist the Committee in reviewing the Annual Governance Statement."*

Is the report Open or Exempt?	Open
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Wards Affected:	All
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Cabinet Member:	Councillor Maurice Cook Cabinet Member with responsibility for Resources
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Supporting Officer:	Name: Mrs Siobhan Martin Job Title: Head of Internal Audit Telephone: 01394 444254 Email: <a href="mailto:siobhan.martin@eastsoffolk.gov.uk">siobhan.martin@eastsoffolk.gov.uk</a>
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## **1 INTRODUCTION**

- 1.1 This Annual Report provides the Committee with an overview of the Internal Audit Service for 2019/20, in accordance with the Public Sector Internal Audit Standards 2013 (Amended 2016 and 2017) (PSIAS).

## **2 HOW DOES THIS RELATE TO THE EAST SUFFOLK STRATEGIC PLAN?**

- 2.1 The entire Internal Audit plan and outputs directly support the governance environment which proactively contributes to delivering the East Suffolk Strategic Plan.

## **3 FINANCIAL AND GOVERNANCE IMPLICATIONS**

- 3.1 Internal Audit recommendations and advice support a robust corporate governance framework. Delivering the Internal Audit Service Plan in addition to the reactive work performed during the year is an essential element in mitigating the risk of losses arising from error, irregularity, and fraud.
- 3.2 Efficiency, effectiveness, and economy reviews form part of the work undertaken in the year. The work of Internal Audit Services represents a fundamental function in delivering the Council's Corporate Governance responsibilities.
- 3.3 The Local Government Act 1972 and the Accounts and Audit Regulations 2015 require a relevant authority to '...undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'
- 3.4 The implications and benefits of agreed recommendations produced by Internal Audit affect all areas by improving controls and processes, which contribute towards efficient and effective management of services.

## **4 CONSULTATION**

- 4.1 The Cabinet Member for Resources and Senior Management Team have been informed on the content of this report.

## **5 REASON FOR RECOMMENDATION**

- 5.1 To ensure the Committee fulfils its terms of reference and supports the Internal Audit process, enabling good governance over public funds.

### **RECOMMENDATION**

That the Audit and Governance Committee comment upon the outputs of the Internal Audit Service and the Head of Internal Audit's Opinion for 2019/20, as set out in Appendix A to the report.

### **APPENDICES**

#### **Appendix A**

Annual Audit Report 2019/20 & Head of Internal Audit Opinion 2019/20

**BACKGROUND PAPERS**

Please note that copies of background papers have not been published on the Council's website [www.eastsuffolk.gov.uk](http://www.eastsuffolk.gov.uk) but copies of the background papers listed below are available for public inspection free of charge by contacting the relevant Council Department.

<b>Date</b>	<b>Type</b>	<b>Available From</b>
March 2019	Annual Internal Audit Plan 2019/20	
Sept 2019	Revised Internal Audit Plan 2019/20	
2019/20	Internal Audit Reports	Head of Internal Audit
April 2017	Public Sector Internal Audit Standards	



## Appendix A: Annual Audit Report 2019/20

<b>Effective</b>	Evaluated controls are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are being met.
<b>Reasonable</b>	<b>Some specific control weaknesses were noted, and some improvement is needed; evaluated controls are generally adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.</b>
<b>Limited</b>	Evaluated controls are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
<b>Ineffective</b>	Evaluated controls are not adequate, appropriate, or effective. Internal Audit cannot provide reasonable assurance that risks are being managed.

**1. HEAD OF INTERNAL AUDIT’S OPINION ON THE COUNCIL’S CONTROL ENVIRONMENT 2019/20**

- 1.1 It is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council’s systems of governance, risk management and internal control in the year to 31 March 2020.
- 1.2 One important piece of work is currently still being undertaken – Procurement (including a Contract Management follow up review). The results of this work will be communicated to Audit and Governance Committee in a future meeting.
- 1.3 The Head of Internal Audit has performed her duties in accordance with CIPFA’s guidance on the Role of the Head of Internal Audit. In giving the audit opinion, it should be noted that assurance can never be absolute. The most that can be provided is a reasonable assurance that there are no major weaknesses in risk management, governance, and control processes.

**2. CORONAVIRUS PANDEMIC**

- 2.1 My opinion is based upon the internal audit work undertaken, and completed, prior to emergency measures being implemented because of the Coronavirus Pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops.
- 2.2 Internal Audit will undertake risk assessments to identify and assess any changes to the Council’s control environment. This will be followed up with a focussed risk-based plan of control and governance tests in due course, given the Council’s emergency response to the Coronavirus Pandemic. Examples include democratic decisions, statutory responsibilities, financial systems / processes, and procurement practices. Internal Audit will provide advice and assurance to services on any changes and perform post event assessments.

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Siobhan Martin  
Head of Internal Audit  
East Suffolk Council

21 May 2020

### **3. RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND INTERNAL AUDITORS IN RELATION TO INTERNAL CONTROL**

3.1 It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Head of Internal Audit to provide an annual overall assessment of the robustness of the internal control system. The internal auditor cannot be expected to give total assurance that control weaknesses or irregularities do not exist.

### **4. SOUND INTERNAL CONTROLS**

4.1 The main objectives of the Council's internal control systems are:

- To ensure adherence to management policies and directives to achieve the Council's objectives;
- To safeguard assets and protect the interests of the Council;
- To secure the relevance, reliability, and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

4.2 A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

4.3 A sound system of internal control therefore provides reasonable, but not absolute, assurance that the Council will not be hindered in achieving its objectives or in the orderly and legitimate conduct of its business by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against any organisation failing to meet its objectives or all material errors, losses, fraud, or breaches of laws or regulations.

### **5. THE WORK OF INTERNAL AUDIT**

5.1 Internal Audit is an independent appraisal function of the Council. It objectively examines, evaluates, and reports on the adequacy of internal control and governance as a contribution to the proper, economic, efficient, and effective use of resources.

5.2 The Internal Audit Service operates in accordance with the Accounts and Audit Regulations (2015), Public Sector Internal Audit Standards and Local Government Application Note (2019), the Audit Charter and professional bodies' Codes of Ethics. The service undertakes a strategic risk based annual programme of work approved by the Audit and Governance Committee.

The strategic audit plan is amended throughout the year to reflect evolving risks and changes within the Council.

- 5.3 All internal audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to internal audit reports. The internal auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not acting. Significant matters arising from internal audit work are reported to the Chief Executive and the Audit and Governance Committee.

## **6. PURPOSE AND BACKGROUND**

- 6.1 The statutory basis for Internal Audit in local government is provided by the Accounts and Audit Regulations 2015 which require a local authority to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 6.2 The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to report periodically to senior management and the Audit & Governance Committee on Internal Audit's purpose, authority, and responsibility via the Internal Audit Charter.
- 6.3 To comply with the Internal Audit Charter, this end of year report provides a summary of the year's work of the Internal Audit Service. This report includes information on the performance of the Internal Audit Service against the audit plan; an objective evaluation and opinion from the Head of Internal Audit on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control; and any significant issues related to the processes for controlling the activities of the Council. The issue of this report is timed to support the annual review of the Council's Corporate Governance and production of the Council's Annual Governance Statement.

## **7. PERFORMANCE/OUTTURN FOR 2019/20**

- 7.1 The table below demonstrates the spread of work that has been completed during 2019/20 and their status.

Type of audit	2019/20 Revised Audit Plan (Total)	2019/20 additions (Total)	Completed (Assurance Opinion Report) <sup>1</sup>	Completed (Non-Opinion Report or Alternative sources of Assurance) <sup>2</sup>	Not Required, Merged or Deferred <sup>3</sup>
Key Systems	12	0	12	0	0
Probity	14	0	5	3	6
Consultancy and Special Investigations	2	4	0	4	3
Other <sup>4</sup>	4	1	0	4	0
<b>Total</b>	<b>32</b>	<b>5</b>	<b>19</b>	<b>8</b>	<b>8</b>

## 8. SUMMARY OF WORK UNDERTAKEN IN-YEAR WHICH ENABLED THE HEAD OF INTERNAL AUDIT TO PROVIDE AN OPINION

- 8.1 For the 2019/20 year, the Head of Internal Audit's Annual Opinion states that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system. There is a qualification to this opinion since one major area of work has yet to be completed i.e. Procurement and Contract Management. The results of this work will be presented to the Audit & Governance Committee at a future meeting.
- 8.2 One Whistleblowing case was referred to the Head of Internal Audit and investigated and found to have no foundations. Learning points from that specific case involve improving the frequency of communications to Senior Management and refresher training for Senior Management over the Public Interest Disclosure Act 1998 (the legislation supporting Whistleblowing in the UK).
- 8.3 The Council did not undertake any covert surveillance activity which required a Regulation of Investigatory Powers Act 2000 authorisation or Investigatory Powers Act 2016 authorisation.
- 8.4 Any significant issues raised by the Internal Audit Service are assessed by the Corporate Risk Group for recording in the Council's Risk Register, which is monitored at Corporate Governance meetings.
- 8.5 Four categories are used in the Internal Audit Report design to classify the overall level of assurance of the processes examined and the adequacy of the individual key control area. These are Effective, Reasonable, Limited, and Ineffective. A clear definition of each has been supplied in a table at the start of this report.
- 8.6 The table in **Appendix A** constitutes a summary of the audit work undertaken in the year (planned audit coverage for 2019/20 was presented to the Audit and Governance Committee

<sup>1</sup> These are detailed within Appendix A

<sup>2</sup> These are detailed within Appendix B and Appendix C

<sup>3</sup> Reasons for entries in this list are provided in Appendix D

<sup>4</sup> Other – Work to support the Council's Information Governance and Data Protection activities, or self-assess the Internal Audit Service



at Suffolk Coastal District Council on 7 March 2019 and Waveney District Council on 12 March 2019), and revised plan agreed on the 18 November 2019 by East Suffolk Council. All results have enabled the Head of Internal Audit to provide the Annual Audit Opinion as set out in Section 1.

8.7 The tables in **Appendices B & C** detail work that has been undertaken where an audit opinion was not applicable, but that has contributed towards the Head of Internal Audit's yearly opinion.

8.8 The table in **Appendix D** details work that was planned for the 2019/20 annual plan and has not been undertaken, with commentary on the reasons why this work was either cancelled or deferred.

## **9. OTHER SOURCES OF ASSURANCE SUPPORTING THE HEAD OF INTERNAL AUDIT OPINION**

9.1 The Head of Internal Audit's evaluation of the control environment is informed by several sources, including:

- a) The planned audit work undertaken by Internal Audit during the year 1 April 2019 to 31 March 2020;
- b) Consultancy and additional work requested and performed by the Service throughout the year;
- c) The representation of the Head of Internal Audit within Corporate Management Team (CMT), governance days and direct line management contact with the Chief Executive;
- d) Reports issued by the Council's external auditors;
- e) The involvement of the Head of Internal Audit in the Council's governance, risk management, performance monitoring and internal control arrangements; and
- f) The on-going work with management to assess and provide assurance on efficiency, effectiveness, and reliability of key systems.

## **10. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (INCLUDING A STATEMENT ON CONFORMANCE WITH PSIAS)**

10.1 The Public Sector Internal Audit Standards (PSIAS) require periodic self-assessments and an assessment by an external person every five years.

10.2 A self-assessment of ongoing compliance with the PSIAS and CIPFA's accompanying Local Government Accompanying Note was completed in 2019/20. The self-assessment was reviewed by an independent external examiner and the results were reported to the Audit & Governance Committee in January 2020.

10.3 The independent review concluded that East Suffolk Council Internal Audit Service conforms with all key elements of the PSIAS.

- 10.4 The Quality Assurance and Improvement Programme Action Plan is used to manage any opportunities to improve the Internal Audit function. During 2019/20 twenty-one actions identified from formal assessment or internal reviews have been completed. Eight actions are planned for delivery in 2020/21 and one is in progress, with all actions monitored regularly within the service.
- 10.5 A quality review process is in place within the Internal Audit Team which includes:
- 10.5.1 All work carried out within the audit team is reviewed to ensure that audit work has been performed in accordance with the agreed objectives for that audit, and that risk based assessments and fair conclusions have been reached based on clearly demonstrable evidence.
- 10.5.2 A draft audit report is issued to management at the end of each audit which is accurate, clear, concise, and based on risk-based assessments. The draft report includes a supported opinion (if applicable) with a set of agreed actions which are achievable, make sense, and mitigate risks.
- 10.5.3 At the conclusion of each audit a customer satisfaction survey is provided to Service Managers to complete. This gives the opportunity for the customer to give their view of the quality and usefulness of the audit review undertaken. Negative feedback is rare and when received will be investigated by the Internal Audit Manager and reported to the Head of Internal Audit. During 2019/20 customer feedback received has been positive.
- 10.6 During 2019/20 the Head of Internal Audit has approved and overseen changes to the staff structure and procedural changes, both of which have been implemented to improve the service provided, and to adapt to increased demand, the ever changing risk environment and the introduction of East Suffolk Council. These improvements are ongoing and will continue throughout 2020/21.

## **11. ORGANISATIONAL INDEPENDENCE AND OBJECTIVITY OF INTERNAL AUDIT**

- 11.1 The mission of the Internal Audit Service is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. All Internal Audit activity forms part of the crucial evidence that enables the Chief Executive and Leader of the Council to sign the Annual Governance Statement (the obligatory statement that accompanies the Annual Accounts and reports on the effectiveness of the Council's governance and internal control arrangements). External Audit may also place reliance upon Internal Audit's work coverage to ensure that systems controls are adequate and effective.
- 11.2 To provide this service Internal Audit must have freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.
- 11.3 The Internal Audit Charter agreed by the Audit & Governance Committee in January 2020 sets out how the internal audit function will operate to ensure Independence and Objectivity.

11.4 The Council's Constitution clearly supports independence and objectivity, and requires that the Chief Executive 'ensure that the Head of Internal Audit has direct access to and freedom to report in his or her name and without fear or favour to the Chief Executive, the Cabinet, and the Audit & Governance Committee, all levels of management, Officers and elected Members'.

11.5 During 2019/20, the Head of Internal Audit confirms that the internal audit activity was independent and objective from the organisation, in accordance with the requirements of the PSIAS.

## **12. BASIS OF OPINION**

12.1 My evaluation of the control environment is informed by a number of sources: the planned audit work undertaken by internal audit during the year; consultancy and additional work requested and performed throughout the year; the preparation of the strategic audit plan; reports issued by the Council's external auditors; my knowledge of the Council's governance, risk management, performance monitoring and internal control arrangements and the on-going work with management to assess and provide assurance on the efficiency, effectiveness and reliability of key systems.

## **13. OPINION**

13.1 The Head of Internal Audit is required to provide an independent opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework which includes consideration of any significant risk or governance issues and control failures which arise.

13.2 86% of internal audit work completed during 2019-20 has yielded an acceptable level of assurance (effective or reasonable). For those audit reviews that have presented concern, actions have been agreed to improve controls and are closely monitored until such a time they are addressed. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit. Senior officers have agreed an improvement action plan to enable governance improvements as part of the Annual Governance Statement assurance process; these are also monitored within the Corporate Risk Register and overseen by the governance arrangements in place at the Council.

**APPENDIX A – Reviews completed with an assurance audit opinion**

Audit	ASSURANCE
Housing Rents	Reasonable
Capital Accounting (including Fixed Asset Register)	Reasonable
Housing Repairs and Maintenance (planned maintenance)	Reasonable
N196 Returns (Fly-tipping)	Reasonable
General Ledger – Cash Management	Draft issued
General Ledger – Core Functions	Effective
Health & Safety Contract Management follow-up and assurance testing	Reasonable
Asset Management Follow-up	Reasonable
Disabled Facilities Grants (DFG) 2019/20	Effective
Accounts Receivable	Draft issued
Accounts Payable (including BACS processing)	Draft issued
Procurement (including Contract Management follow up)	At reporting stage will update A&G at a future meeting.
Housing Benefits Undertaken by West Suffolk Council Internal Audit Housing Benefit Overpayments Undertaken by West Suffolk Council Internal Audit	Adequate/Reasonable
Council Tax Undertaken by West Suffolk Council Internal Audit	Adequate/Reasonable
National Non-Domestic Rates Undertaken by East Suffolk Council Internal Audit	Adequate/Reasonable
Bailiff Services Undertaken by Fenland District Council Internal Audit	At reporting stage will update A&G in a future meeting.

**APPENDIX B – All other audit work undertaken where no formal report has been issued that has contributed towards the Head of Internal Audit annual opinion.**

<b>Audit</b>	<b>Comments</b>
Payment Card Industry (PCI) follow up	Reduction of charges. Supplemental follow up work to be undertaken within 2020/21
Hothouse - Strategic Business Plan	Attendance at the corporate event to develop the Strategic Business Plan
Ethics and Culture	Assurance on ethics and culture factors into all audit work completed in 2019/20
Report of Money Laundering – NNDR	Administrative support to the Counter Fraud team

## APPENDIX C - Special investigations, consultancy, and compliance work

Audit	Comments
Corporate Governance and Risk Management Support	Head of Internal Audit attendance on Corporate Governance days, and provision of independent professional advice.
Annual Governance Statement	The Head of Internal Audit prepared the Council's Annual Governance Statement for 2019/20.
Public Sector Internal Audit Standards (PSIAS) self-assessment	A self-assessment on Internal Audit's compliance with PSIAS and the production of an improvement plan.
National Fraud Initiative (NFI)	Throughout the year Internal Audit administer the Council's participation, including: <ul style="list-style-type: none"> <li>• Data Protection compliance</li> <li>• Uploading of data</li> <li>• Investigation of data matches.</li> </ul>
Partnership Agreement Assessment	Consultancy: Advice to the Operations team
Framlingham Connected Communities Pilot Scheme Grant Claim Form	Consultancy: Advice to the Communities team
Land Charges and Online Publication Working Group	Consultancy: Advice and attendance at meetings

**APPENDIX D – Reviews that have been cancelled or deferred since the variation to the annual plan as agreed 18<sup>th</sup> November 2019, and the reasons why**

<b>Audit</b>	<b>Status</b>	<b>Comments</b>
Criminal Finances Bill	Deferred	Deferred due to impact of Coronavirus on resources.
Licensing	Deferred	New software was being implemented at the time the audit was scheduled; the audit was deferred with the agreement of the Service Area.
Car Parks (Contract management)	Deferred	Deferred due to impact of Coronavirus on resources.
ICT Port Health	Deferred	The service is seeking cyber security accreditation and the audit is deferred until the accreditation has been obtained to avoid duplication.
Physical Security of ICT Hardware	Deferred	Due to the rollout of new ICT hardware in 2019/20: providing assurance on arrangements before the rollout would not be of value to the organisation.
Enabling Communities Budgets consultation	Removed	Consultation no longer required by service.
Members' Requests	Standing item	No requests made during 2019/20.
Recruitment and Lone Working	Merged	This was merged with the Payroll audit which was deferred from the original Audit Plan.
Contract Management follow up	Merged	This was merged with the Procurement audit due to themes overlapping in both.