

AUDIT AND GOVERNANCE COMMITTEE

Monday, 29 July 2019

ANNUAL INTERNAL AUDIT REPORT 2018/19

EXECUTIVE SUMMARY

1. The Annual Internal Audit Report 2018/19 (Appendix A) details the work undertaken by the Internal Audit Service for the year 2018/19 in accordance with the plan for the year presented to both Suffolk Coastal and Waveney District Councils in March 2018.
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
-------------------------------	------

Wards Affected:	All
------------------------	-----

Cabinet Member:	<p>Cllr Steve Gallant</p> <p>Leader of the Council and Cabinet Member with responsibility for Resources</p>
------------------------	---

Supporting Officer:	Mrs Siobhan Martin Head of Internal Audit 01394 444254 siobhan.martin@eastsoffolk.gov.uk
----------------------------	--

1 INTRODUCTION

- 1.1 This Annual Report provides the Committee with an overview of the Internal Audit Service for 2018/19, in accordance with the Public Sector Internal Audit Standards 2013 (amended 2016 and 2017) (PSIAS).

2 HOW DOES THIS RELATE TO THE EAST SUFFOLK BUSINESS PLAN?

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

3 CONSULTATION

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

4 FINANCIAL AND GOVERNANCE IMPLICATIONS

- 4.1 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.
- 4.2 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.
- 4.3 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.'
- 4.4 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.

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.

RECOMMENDATIONS

That the Head of Internal Audit's Opinion for 2018/19, as set out in Appendix A to the report, be commented upon.

APPENDICES

Appendix A	Annual Audit Report 2018/19
-------------------	-----------------------------

BACKGROUND PAPERS		
Date	Type	Available From
March 2018	Annual Audit Plan 2018/19	Head of Internal Audit
2018/19	Internal Audit Reports	
April 2017	Public Sector Internal Audit Standards	

Appendix A: Annual Audit Report 2018/19

Effective	Evaluated controls are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are being met.
Reasonable	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.
Limited	Evaluated controls are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Ineffective	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 COUNCILS' CONTROL ENVIRONMENT 2018/19

This opinion relates to both Suffolk Coastal District and Waveney District Councils, which ceased to exist 31 March 2019 and have been replaced by East Suffolk Council.

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 financial year 2018/19. I wish to highlight the following key areas that have been reported within the 2018/19 Annual Governance Statement.

Contract Management – The Councils strategic governance arrangements over contracts requires further strengthening, specifically around the Procurement Strategy and Contracts Register.

Asset Management – The Councils strategic governance arrangements with regards Asset Management requires improvement, specifically around the Asset Management Strategy and centralised Asset Register.

I acknowledge that throughout 2018/19 significant efforts have been made by the Service Areas to improve controls and governance arrangements over contract and asset management. The Head of Operations has on a quarterly basis reported progress and provided assurances to the Audit and Governance Committee on these areas.

I have included reviews of these areas within the Internal Audit Plan for 2019/20, where substantive testing will assess the changes being made.

This has been a challenging year with the creation of the new Council along with the extra demands required to ensure the successful implementation of new data protection laws. The original strategic risk based Internal Audit Plan has been flexed accordingly to support the changing environment, and I am satisfied that the governance work undertaken is comprehensive and contributes to my reasonable assurance opinion.

Siobhan Martin
Head of Internal Audit
30 April 2019

2. Purpose and Background

- 2.1. The statutory basis for Internal Audit in local government is provided by the Accounts and Audit Regulations 2015 which requires 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’.
- 2.2. 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, responsibility via the Internal Audit Charter.
- 2.3. 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.

3. Performance and Outturn for 2018/19

- 3.1. The table below demonstrates the spread of work that has been completed during 2018/19 and their current status.

Type of audit	2018/19 original plan (Total)	2018/19 additions (Total)	Completed (Assurance Opinion Report) ¹	Completed (Non-Opinion Report or Alternative sources of Assurance) ²	Not Required or Deferred ³
Key Systems	13	0	9	3	1
Probity	18	0	4	9	5
Consultancy and Special Investigations	5	0	0	5	1
Other ⁴	1	1	0	2	0
Total	37	1	13	18	7

¹ These are detailed within Appendix A

² These are detailed within Appendix B and Appendix C

³ Reasons for entries in this list are provided in Appendix D

⁴ Other – Work to support the Council’s Information Governance and Data Protection activities, or self-assess the Internal Audit Service

4. Summary of work undertaken in year that enabled the Head of Internal Audit to provide an Opinion

- 4.1. For the 2018/19 year, the Head of Internal Audit's Annual Opinion states reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system. There is no qualification to this opinion but it has been highlighted that improvements are still required in two main areas as detailed within Section 1.
- 4.2. There have been no formal reports of internal frauds or Whistleblowing cases to the Head of Internal Audit.
- 4.3. Significant issues raised by the Internal Audit Service are assessed by the Corporate Risk Management Group for recording in the Council's Risk Register, which is monitored at Corporate Governance meetings.
- 4.4. Four categories are used 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.
- 4.5. The table in **Appendix A** constitutes a summary of the audit work undertaken in the year (planned audit coverage for the 2018/19 was presented to Audit and Governance Committee at Suffolk Coastal District Council on 7th March 2018 and Waveney District Council 15th March 2018), resulting in an individual audit opinion that has enabled (along with other audit activity detailed in Section 5) the Head of Internal Audit to provide the Annual Audit Opinion as set out in Section 1.
- 4.6. The tables in **Appendices B & C** details 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.
- 4.7. The table in **Appendix D** details work that was planned for the 2018/19 annual plan and has not been undertaken, with commentary on the reasons why this work was either cancelled or deferred.

5. Other sources of assurance supporting the Head of Internal Audit opinion

- 5.1. The Head of Internal Audit's evaluation of the control environment is informed by a number of sources, including:
 - a) The planned audit work undertaken by internal audit during the year 01 April 2018 to 31 March 2019;
 - 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), Designated Officer Group, 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 of 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.

6. Quality Assurance and Improvement Programme (including a statement on conformance with PSIAS)

- 6.1. Internal Audit Services with the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which has been in place since 1 April 2013 and were revised on 1 April 2016. The standards require periodic self-assessments and an assessment by an external person every five years.
- 6.2. Suffolk Coastal and Waveney District Councils were reviewed in November 2016 by the Chartered Institute of Public Finance and Accounting. The review also included checking compliance with the Local Government Agency Note (LGAN) where this has requirements in addition to those in PSIAS.
- 6.3. The review identified no areas of non-compliance within PSIAS across the Councils.
- 6.4. An annual self-assessment was completed during 2018/19 which generated an action plan with improvement points. The action plan was presented to Audit and Governance Committee at Suffolk Coastal District Council on 10 September 2018 and at Waveney District Council on 20 September 2018. The self-assessment concluded ***continued compliance***. An independent external assessment of PSIAS compliance (a 5 year compulsory requirement) is programmed in 2019/20.
- 6.5. A quality review process is in place within the Internal Audit Team which includes:
 - a) All work carried out within the audit team is reviewed to ensure that audit work has been performed in accordance with agreed objectives for that audit, and that risk based assessments and fair conclusions have been reached based on clearly demonstrable evidence.
 - b) A draft audit report is issued to management at the end of each audit which is accurate, clear, concise, and is 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.

- c) 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 2018/19 customer feedback when received has been **positive**.
- 6.6. During 2018/19 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, adapt to increase demand, the ever changing risk environment and the introduction of East Suffolk Council. These improvements are ongoing and will continue throughout 2019/20.
- 6.7. Four actions were identified in the 2018/19 self-assessment. Two have been completed and two are in progress. Eight further actions were identified within the Audit service during 2018/19 for inclusion in the Quality Assurance and Improvement Programme Action Plan, and have also been completed.
- 6.8. The Quality Assurance and Improvement Programme Action Plan has been updated to capture a further five improvement areas planned for 2019/20, and all actions will be monitored regularly within the service. Reports will also be presented to Audit and Governance Committee.

7. Organisation Independence and Objectivity of Internal Audit

- 7.1. 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 Councils' 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.
- 7.2. To provide this service Internal Audit must have the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.
- 7.3. The Internal Audit Charter agreed by Audit & Governance Committee in September 2018 sets out how the internal audit function will operate to ensure Independence and Objectivity.
- 7.4. 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 and the Chief Finance Officer, the Cabinet and the Audit & Governance Committee, all levels of management, Officers and elected Members’.

- 7.5. During 2018/19, 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.

APPENDIX A – Reviews completed with an assurance audit opinion

Audit	ASSURANCE
Joint Review of Safeguarding*	Good (Effective)
Joint Review of IDOX / Uniform System - Planning and Development Control	Reasonable
Joint Review of Payroll	Effective
Joint Review of Homelessness Prevention Grants Payments	Effective
Joint Review of Treasury Management	Effective
Joint Review of Bank Reconciliation and General Ledger	Effective
Joint Review of Accounts Payable	Reasonable
Joint Review of Accounts Receivable	Effective
Joint Review of Ethics and Culture	Effective
Review of Bailiff Services (assurance via the Breckland District Council Audit Service)*	Good (Effective)
Review of Council Tax and Overpayments (assurance via the West Suffolk Council Audit Service)*	Adequate (Reasonable)
Review of NNDR*	Adequate (Reasonable)
Review of Housing Benefits (assurance via the West Suffolk Council Audit Service)*	Adequate (Reasonable)

* The assurance for audits issued early in 2018/19 or relating to the Anglia Revenues Partnership use the former opinion categories of Good, Adequate, Limited, and No Assurance.

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.

Audit	COMMENTS
Joint Review of Asset Management	Internal Audit has worked with the Service Areas responsible throughout 2018/19 to monitor and check progress of the implementation of risks highlighted during the 2017/18 audit reviews.
Joint Review of Contract Management	
Joint Review of Partnerships [as Contract Management (Health and Safety in Partnerships)]	The Head of Internal Audit has made reference to two of these areas within Internal Audit Annual Opinion. Monitoring is ongoing, with further Internal Audit follow-up work planned during 2019/20.
Joint Review of Cash and Banking	Assurance in these areas has been gained from: <ul style="list-style-type: none"> • Work reallocated to the Bank Reconciliation/General Ledger audit on income feeder systems. • Work undertaken within the IDOX / Uniform System - Planning and Development Control audit on receipt of income specific to the planning service. • No significant risk areas were identified during 2017/18. • Provision of advice by Internal Audit on the new Cash Receipting System
Joint Review of Cash Receipting System	
Review of Housing Rents	Assurance in these areas has been gained from: <ul style="list-style-type: none"> • Work reallocated to the Bank Reconciliation/General Ledger audit on financial feeder systems. • Internal Audit oversight of regular stock checks. • Special internal investigation within this area (reported in Appendix C)
Review of Housing Repairs and Maintenance	
Review of Procurement	Assurance in this area has been gained from: <ul style="list-style-type: none"> • Ongoing work to monitor the improvements identified as necessary in the Contracts Management audit (see row 1 of this table) • Input into the corporate review of the Financial Procedure Rules for East Suffolk Council (reported in Appendix C) • Input into the review of the Contract Procedure Rules for East Suffolk Council (reported in Appendix C).

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 2018/19
Members Requests	The Audit and Governance Committee (Suffolk Coastal District Council) requested assurance on the governance arrangements for Suffolk Sport (now Active Suffolk).
Review of Lowestoft Charter Trustees	The Head of Internal Audit audited the last year's financial statement for this trust.
PSIAS self-assessment	A self-assessment on Internal Audit's compliance with PSIAS and the production of an improvement plan.
Data Protection Act 2018 and the General Data Protection Regulations (GDPR).	<p>The Head of Internal Audit is the Data Protection Officer for the Councils. The Internal Audit Team have had the responsibility of ensuring compliance with the Act which has included:</p> <ul style="list-style-type: none"> • The writing of corporate guidelines • Training • Responding to requests from data subjects • Providing advice and guidance • Setting up of standard templates and wording • Responding to requests for data sharing from third parties • Investigating cases of alleged breaches • Development of a database to manage Data Protection activities <p>Work in this area is ongoing.</p>
National Fraud Initiative (NFI)	<p>Throughout the year Internal Audit administer the Council's participation. Including:</p> <ul style="list-style-type: none"> • Data Protection compliance • Uploading of data • Investigation of data matches
Merger	<p>Internal Audit supported the following workstreams as part of the creation of East Suffolk Council:</p> <ul style="list-style-type: none"> • Input into the corporate review of the Financial Procedure Rules for East Suffolk Council • Input into the review of the Contract Procedure Rules for East Suffolk Council • Input into the review of the new Constitution for East Suffolk • Input into the merger of Council Tax, NNDR and Housing Benefits systems for East Suffolk Council • Review of policy documents owned by the Internal Audit Service
Consultancy and Special Investigations (comprising two audits)	One consultancy and special investigation has been undertaken within 2018/19 on Travellers Site Management.
Criminal Finances Bill	A Status Report was issued in October 2018 that identified progress in meeting the Council's legal requirements. A further consultancy audit on this subject has been included in the 2019/20 Audit Plan.

APPENDIX D – Reviews that have been cancelled or deferred and the reasons why

Audit	Status	COMMENTS
Joint Review of Disabled Facilities Grant	Not required	There was no requirement from Suffolk County Council to provide assurance on grant expenditure during 2018/19.
Charities	Not required	There was no requirement for the Head of Internal Audit to review these accounts in 2018/19.
Joint Review of Commercial Rents	Deferred	Asset Management has been undertaking a full scale review of its assets as detailed in Appendix B. Internal Audit has been monitoring the progress in this area and has determined that full assurance testing would be better placed once the review is complete.
Joint Review of Car Parks	Deferred	Assurance has been taken from the 2017/18 review which was completed at the very end of March 2018.
Joint Review of Fixed Asset Register	Deferred	Asset Management has been undertaking a full scale review of its assets as detailed in Appendix B. Internal Audit has been monitoring the progress in this area and has determined that full assurance testing would be better placed once the review is complete.
Joint Review of Organic Waste Recycling (Green Waste)	Deferred	Deferred to allow a substantial sample period to be in place.
Joint Review of Consultants and Agency Usage	Deferred	Deferred to allow the implementation of new financial systems and the commencement of East Suffolk Council.