



**Report of Stephen Carter, Interim Chief Internal Auditor and
Corporate Fraud Manager**

Electoral division(s) affected:

Countywide.

Purpose of the Report

- 1 To present to members the annual review of the system of Internal Audit for consideration and comment.

Executive Summary

- 2 To examine the effectiveness of the internal audit service for the past year this annual review considered key elements and assessed their contribution to enabling the service to fulfil its responsibilities. This includes:
 - (a) The structure and resourcing level, including qualifications and experience of the audit team;
 - (b) The extent of conformance with the Public Sector Internal Audit Standards (PSIAS);
 - (c) Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis;
 - (d) The overall performance of the internal audit service.
- 3 The review found that the structure and resourcing level, including qualifications and experience of the audit team are satisfactory.
- 4 Internal Audit has completed a self-assessment against the key elements of the PSIAS. For 2020/2021 this demonstrated that the Section was **conforming** with the Code's requirements. The service must be externally assessed once every five years. The last external assessment was completed in July 2016.

- 5 It is considered that the 2020/2021 Internal Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with Senior Management and the Audit Committee. It was based on reasonable estimates of available resources and incorporated management requests and referrals.
- 6 An emergent Internal Audit Plan was provided to the Audit Committee in February 2020, however, further to the onset, in March 2020, of the COVID-19 pandemic and in order to provide flexibility in what were rapidly changing circumstances, an initial six-month plan was developed. This plan was presented to the committee in June 2020. The plan was re-assessed at the end of September 2020 and a second six-month plan for the period 01 October 2020 to 31 March 2021 was prepared. The re-assessment took into account all work that had been completed in the first six-month period and prioritised additional work to be undertaken including a requirement for a greater allocation of COVID related grant and assurance based work. This plan was presented to the committee in November 2020.
- 7 Performance Management of the Section and for individual auditors is focused on deployment of auditor time to best effect. This has three main elements related to how much time is spent auditing, completion of audits within set timescales and effectiveness of time deployed. The key deliverable for the Section is the completion of the Internal Audit Plan within the year.
- 8 Performance and progress are monitored through Key Performance Indicators (KPIs). These are agreed with the Audit Committee as part of the Internal Audit Charter and allow for benchmarking to assess effectiveness. Comparative figures are used to consider areas for closer review. Performance is monitored throughout the year and there are no significant issues that would demonstrate the Service was not effective. Whilst productivity remained high, remote working during the pandemic when combined with additional testing of core financial systems data and additional assurance work directly related to COVID related payments had a cumulative effect in reducing the overall number of individual audits delivered than would normally be expected, though importantly this did not require the Interim Chief Internal Auditor and Corporate Fraud Manager to provide any formal Limitation on the Opinion to be provided.
- 9 The service continues to build on its strengths and enhance its reputation. Service delivery remains a key priority in support of the Council's priorities and to help identify and address any risks to the delivery of corporate objectives.

- 10 The service has delivered a reasonable plan of work for the year, particularly when the considerable impact and prolonged nature of the COVID-19 pandemic is taken into account and it is considered that it has a sound base for carrying out its audit activities and meeting its objectives to provide audit assurance and advisory support to the Council.

Recommendation

- 11 Members are asked to:
 - (a) Note the findings and conclusions of the 2020/2021 review of the effectiveness of the system of Internal Audit contained within this report.

Background

- 12 The Accounts and Audit Regulations 2015 Regulation 3 states that –
- ‘A relevant authority must ensure that it has a sound system of internal control which –*
- (a) Facilitates the effective exercise of its functions and the achievement of its aims and objectives;*
 - (b) Ensures that the financial and operational management of the authority is effective; and*
 - (c) Includes effective arrangements for the management of risk.’*
- 13 Furthermore, the Accounts and Audit Regulations 2015 Regulation 6 states that –
- ‘A relevant authority must, each financial year conduct a review of the effectiveness of the system of internal control as required by Regulation 3’.*
- 14 Internal Audit is defined as the means by which the Council assesses its governance and assurance requirements, ensuring that an effective internal control system is in place. Outcomes from the current governance process are evaluated and reported in the Annual Governance Statement.
- 15 To address the Accounts and Audit Regulations requirement, an assessment of Internal Audit has been carried out and is presented for consideration by those charged with governance.

Detailed Review

- 16 A dedicated Internal Audit Service forms part of the system of Internal Audit in the Council. The Service is part of the Resources Service Grouping. It is led by the Chief Internal Auditor and Corporate Fraud Manager. It has strong links with the Risk, Insurance Claims and Corporate Fraud areas and works closely with others across the Council tasked with governance, assurance and risk management. Whilst part of a wider service, it retains its own identity as Internal Audit for the Council.
- 17 The Chief Internal Auditor and Corporate Fraud Manager reports directly to the Corporate Director of Resources but also has direct access to the Chief Executive and the members of the Audit Committee.

- 18 At the start of 2020/21 the team comprised of 18 approved posts (16.35FTE) plus the Chief Internal Auditor and Corporate Fraud Manager. This team delivered work for the Council as well as work for external clients including the Pension Fund, Durham Constabulary, County Durham and Darlington Fire and Rescue Authority, Peterlee Town Council, Spennymoor Town Council, Horden Parish Council, Shotton Parish Council, Monk Hesleden Parish Council and Trimdon Parish Council.
- 19 During the year the Chief Internal Auditor and Corporate Fraud Manager left the Council to further develop his career and an Audit Manager was appointed to undertake the role on an interim basis. In addition our Audit Apprentice left to take up a new role in the private sector. It is intended that both vacancies will be filled within 2021/22.
- 20 The Vision and Strategy for Internal Audit is described in the Annual Internal Audit Plan and Strategy, the Internal Audit Service Terms of Reference (TOR) within the Internal Audit Charter and it outlines the status of the Section in context with the organisation and defines the principles of how the service operates. The TOR provides appropriate arrangements to ensure that the Service is sufficiently independent and objective and that there is access to all information and people required to discharge its responsibilities. The requirements of the Public Sector Internal Audit Standards (PSIAS) are reflected in the Internal Audit Charter.
- 21 Arrangements for investigation work are defined in the Council's policies and procedures for Counter Fraud and Confidential Reporting (Whistleblowing) and these are reported to Corporate Management Team and the Audit Committee in the Protecting the Public Purse update reports. The Council's Corporate Fraud Team conduct this work.

Resourcing, Qualifications and Experience

- 22 Audit work was actively managed within the resource available and progress toward delivery reviewed regularly. The focus was maintained on clear scoping and coverage for assurance activity; timing of work and availability of clients; and control over the allocation of resources for in-year requests for support. Alternative means for gaining assurance were assessed and used where appropriate to support audit opinions. Progress and outcomes were regularly reported to Clients, Service Grouping Management Teams, Corporate Management Team and to the Audit Committee.

- 23 The structure of the service reflects the configuration of the Council at Corporate Director level and allows for close client liaison during the year. It is the intention that auditors continue to develop knowledge and client relationships. Where possible auditors will continue to work with similar service groupings to that of 2020/21 in order to offer an element of continuity for clients with whom we have built constructive relationships. We consider this approach continues to be successful in building a better understanding of the Council and its business needs and objectives and the service continues to receive positive feedback from management on this approach. There has been a need for employee rotation for development purposes and to maintain objectivity, this is continually reviewed.
- 24 The service enables the objectives of Internal Audit to be more clearly articulated through the service planning process and is demonstrated in service plans. Key priorities, options for development and service delivery, service objectives assessments of performance and workforce plans are encapsulated in the annual Internal Audit Plan.
- 25 The training and development within the division encourages development through the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Internal Auditors (IIA), the Association of Accounting Technicians (AAT) and Continuing Professional Development (CPD).
- 26 During the year, one auditor further progressed their IIA studies and all other employees hold at least one audit qualification. For CPD all employees have access to and attended events selected from internal and external training events. Formal internal CPD sessions are held for all employees with individuals keeping records of their CPD based on their professional requirements.
- 27 The following information about qualifications and experience of employees available for audit work as at 31 March 2021 demonstrates the experience and qualification mix.

Experience 2020/21

Auditing Experience	No	%	Public Sector Auditing	%
Up to 1 Year	0	0	0	0
1 to 5 Years	0	0	0	0
5 to 10 Years	0	0	0	0
Over 10 Years	17	100	17	100
Total Employees	17	100	17	100

Qualifications

Accountants (CCAB)	5
Institute of Internal Auditors	1
Institute of Internal Auditors – Training	1
Certified Information System Auditor	1
Association of Accounting Technicians	9
Total	17

28 The level of experience of audit employees and skills level available remained high based on the substantial number of employees with over 10 years' experience and competencies in specific areas.

29 At 31 March 2021 the Service has two vacant posts. This is reflected in the audit plan proposed for 2021/22.

Conformance with UK Public Sector Internal Audit Standards (PSIAS)

30 Internal Audit completed a self-assessment against the key elements of the PSIAS (2017) using the Local Government Application Note. For 2020/21 this demonstrated that the Section was **conforming** to the Code's requirements.

31 All employees comply with the ethics requirements (as described in PSIAS) in relation to the professional role of an auditor. All employees provided an annual declaration of interests for consideration to enable management to ensure that there was enough information to address any potential conflicts of interest which arise during audit activities. Employees are obliged to raise any conflicts or issues with management during the year. Records are maintained for this.

32 Quality of audit work was actively managed in year and the achievement of quality standards enabled the Chief Internal Auditor and Corporate Fraud Manager to confirm work has been completed in conformance with PSIAS. Individual audits had agreed and clear scope; activity was reviewed and assessed for its effectiveness and quality during and after completion of work; and customer feedback was received from post audit questionnaires.

33 Liaison with the External Auditor in year was productive and the two services continue to share information and to use this to inform risk assessments and to direct audit activity.

Ensuring the Effective Prioritisation of Internal Audit Work

- 34 Prioritisation of the work of the Service is achieved by the development and delivery of an annual risk-based audit plan. This describes the assurance plans for the Service and includes capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate. The plan is based on a mix of different types of audit and work to ensure that assurance over the systems of governance, risk management and internal control is obtained from a number of different directions and sources.
- 35 For 2020/21, as a direct response to the COVID-19 pandemic and in order to provide flexibility in what were rapidly changing circumstances, and to focus upon issues of current importance, an initial six-month plan which covered the period from 01 April 2020 to 30 September 2020 was developed. The plan was re-assessed taking into account all work that had been completed in the first six-month period and prioritised additional work to be undertaken between 01 October 2020 and 31 March 2021.
- 36 The Service's methodology for establishing audit priorities is aligned with governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs and are linked to the Council's overall objectives.
- 37 It is considered that the 2020/21 Internal Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with Senior Management and the Audit Committee. It was based on reasonable estimates of available resources and with management requests and referrals. An emergent Internal Audit Plan was provided to the Audit Committee in February 2020.
- 38 With the onset, in March 2020, of the COVID-19 pandemic, and in order to provide flexibility in what were rapidly changing circumstances, an initial six-month plan was developed. This plan was presented to the Committee in June 2020. The plan was re-assessed at the end of September 2020 and a second six-month plan for the period 01 October 2020 to 31 March 2021 was prepared. The re-assessment took into account all work that had been completed in the first six-month period and prioritised additional work to be undertaken including a requirement for a greater allocation of COVID related grant and assurance based work. This plan was presented to the Committee in November 2020.

Performance Measures

- 39 Performance Management of the Section and for individual auditors is focused on deployment of auditor time to best effect. This has three main elements related to how much time is spent auditing, completion of audits within set timescales and effectiveness of time deployed. The key deliverable for the Section is the completion of the Internal Audit Plan within the year.
- 40 Delivery of the audit plan 2020/21 was impacted in year by the COVID-19 pandemic. Whilst productivity across the Service remained high with 95% of productive days recorded, remote working during the pandemic when combined with additional testing of core financial systems data and additional assurance work directly linked to COVID related payments had a cumulative effect in reducing the overall number of individual audits delivered than would normally be expected to approximately 70% of those planned. Importantly in adopting an approach that prioritised both assurance work and advisory work that supports the annual opinion, and by focusing coverage to key activities, and in utilising other sources of assurance, this did not require the Interim Chief Internal Auditor and Corporate Fraud Manager to provide any formal Limitation on the Opinion to be delivered. Work deferred following review of the audit plan has been agreed at the Audit Committee throughout the year.
- 41 Performance and progress are monitored through Key Performance Indicators (KPIs). These are agreed with the Audit Committee as part of the Internal Audit Charter. And allow for benchmarking to assess effectiveness. Comparative figures are used to consider areas for closer review.
- 42 Key performance measures for the Section over the last 12 months are:

KPI	Measure of Assessment	Target	Actual as at 31 March 2021
Planned audits completed	% of plan achieved.	90%	95%
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure	90%	98% (51 out of 52)
Timeliness of Final Reports	% of final reports issued within 14 Calendar days of receipt of management response	95%	100% (60 out of 60)
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95%	100%

KPI	Measure of Assessment	Target	Actual as at 31 March 2021
Post Audit Customer Surveys	% of customers scoring at least 3 out of 5	100%	100%
Customers providing feedback responses	% of customers returning satisfaction returns	70%	84%

- 43 There continues to be a positive response to customer satisfaction returns and positive feedback on a number of specific assignments, which is reflected in the customer satisfaction questionnaires.
- 44 The issuing of draft reports is an assessment of the timeliness of the audit activity from the completion of a piece of work to the issuing of a draft report for consideration and response. This has been consistent with previous years with all reports being issued within set timescales.
- 45 No concerns have been raised in relation to the application of professional standards for audit work and there have been no formal complaints.

Implementation of Recommendations

- 46 The process for monitoring implementation of recommendations continues to build on improvements last year and there are good levels of engagement from all services across the Council. Working closely with managers allowed for greater understanding of the challenges faced and in ensuring practical recommendations were made and alternative solutions considered in order to address risk.
- 47 Internal Audit continues to engage with the Council's quarterly reporting process and deliver regular quarterly reports to Service Grouping Management Teams and to the Corporate Management Team. This process has ensured that time is targeted on key issues and that appropriate support and advice is offered at the right time.
- 48 The Audit Committee are provided with regular updates from the Section during the year and have the opportunity to challenge progress and outcomes. This includes asking senior managers to provide updates as necessary where there is felt of be a significant risk or concern. This process has provided an effective method for obtaining assurance during 2020/21.

Audit Committee

- 49 The system of Internal Audit includes the role of the Audit Committee and in particular its role in the receipt and evaluation of audit reports,

both in terms of assurance opinions and in the ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for the Audit Committee remained the same during 2020/21 though the impact of COVID necessitated the cancellation of two scheduled meetings and the subsequent holding of committee meetings using remote means which was in full accordance with government legislation which temporarily removed the legal requirement for local authorities to hold public meetings in person.

- 50 Audit Committee request reports from management in response to issues raised in within Internal Audit reports, demonstrating the positive steps being taken by the Committee to seek assurance over actions being taken to respond to concerns.

Summary and Key Priorities

- 51 The service continues to build on its strengths and enhance its reputation. Service delivery remains a key priority in support of the Council's priorities and to help identify and address any risks to the delivery of corporate objectives. The service delivered a reasonable plan for the year and it is considered that it has a sound base for carrying out its audit activities and meeting its objectives to provide audit assurance and advisory support to the Council.

Contact: Stephen Carter

Tel: 03000 269665

Appendix 1: Implications

Legal Implications

The Accounts and Audit Regulation 2015 (Part 2, Section 5) states a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.

Completion of the review of the effectiveness of internal audit ensures compliance with both the Public Sector Internal Audit Standards 2017 and the Accounts and Audit Regulations 2015

Furthermore, Internal Audit assists the Corporate Director of Resources in fulfilling their duties under Section 151 of the Local Government Act 1972 which requires each Local Authority to make arrangements for the proper administration of their financial affairs.

Finance

There are no direct financial implications associated with this report.

Internal Audit work has clear and direct effects, through recommendations made, to assist in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

Consultation

All Corporate Directors and Heads of Service.

Equality and Diversity / Public Sector Equality Duty

There are no equality and diversity / public sector equality duty implications as a result of this report.

Climate Change

There are no climate change implications as a result of this report.

Human Rights

There are no human rights implications as a result of this report.

Crime and Disorder

There are no crime and disorder implications as a result of this report.

Staffing

The report presents the internal audit services 17.35 FTE (19 posts) and the relevant experience within the service.

Accommodation

There are no accommodation implications as a result of this report.

Risk

The key risk is that the internal audit service is not effective. To mitigate this risk, a defined process exists within the Service to carry out effective performance management and as such assurance is reflected in reports to the Audit Committee. Any issues with performance would be reported to the Audit Committee where further action would be agreed and overseen. To provide further assurance an external assessment is required every five years with the last external review being completed in 2016 which delivered a positive outcome.

Procurement

There are no procurement implications as a result of this report.