

Audit Committee

30 June 2021

Annual Internal Audit Opinion and Report 2020 / 2021



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 Interim Chief Internal Auditor and Corporate Fraud Manager's assurance opinion on the adequacy and effectiveness of the Council's internal control environment.
- 2 Members are also presented with the Annual Internal Audit Report for 2020/21.

Executive Summary

- 3 The Public Sector Internal Audit Standards (PSIAS) 2017 state that the provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.
- 4 Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control but still contribute to the overall opinion however each review does not deliver individual assurance opinions.
- 5 In exercising my opinion, I am satisfied that, whilst the coronavirus pandemic has had an impact in reducing the overall number of individual assurance audits delivered than would normally be expected, in prioritising audit activity to areas of key risk, in undertaking advice and consultancy work that supports the assurance opinion, and when taken together with work of other sources of assurance identified from within services themselves, sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's system of internal control.

- 6 Based on the work undertaken, I am able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2020/21. The level and nature of internal audit work undertaken has not required me to provide a formal Limitation on the Opinion to be delivered and as such there are no qualifications to this opinion.
- 7 The moderate opinion provides assurance that there is a sound system of control in place however there are some weaknesses and evidence of ineffective controls.
- 8 Given the unprecedented impact of the coronavirus pandemic which was evident throughout the whole of the financial year 2020/21 and which required the Council to adapt and deliver its services in new and innovative ways which when taken within a context of change the Council continues to face, the reduction in resources and the increasing diverse nature of the Internal Audit Plan, this assurance opinion should be regarded as a positive outcome.
- 9 Despite the challenges faced, the Council has continued to progress a number of significant developments and projects which include the replacement of a significant IT system in Adults Social Care, the development of the Council's new headquarters and various commercial investment and regeneration projects. It has actively provided ongoing Covid-19 advice, information, and support to County Durham residents and has supported eligible businesses and the self-employed across the county dealing with the economic impact of the pandemic through the administration of a range of government funded grants.
- 10 The Council's Company governance arrangements, where the Council has a significant interest or control in a company have also been progressed through a corporate group. During the year the Group has considered the Council's strategic approach to, and structure of, its Companies and joint venture arrangements, collated relevant Register information, prepared a guidance note for those considering establishing a new company and provided training to Managers to help develop expertise and resilience within the Council to support the companies as officers whose role in future might involve working with, or being appointed as a Director of a Council company.
- 11 Reviews undertaken during 2020/21 have referred to unsatisfactory compliance with the Council's Policies and Procedures. It is recognised that the Council is on a continuing journey of Transformation and it is evident that there is a clear direction and drive from the organisation to

change the culture and behaviours. It is important that internal audit contributes where it can to assist the organisation achieve its objectives and continually add value.

- 12 During the year internal audit issued three 'Limited' assurance opinions which is less than previous years, with one of these related to schools. Limited assurance opinions are issued where there are significant concerns about the system of internal control or an absence of controls which could put the process or system objectives at risk and urgent improvement is needed. In all occasions the response of management of the relevant services to these reports was positive with all recommendations made taken seriously and steps taken to address.

Recommendation

- 13 Members are asked to:
- (a) note the content of the Annual Internal Audit Report for 2020/2021 at Appendix 2;
 - (b) note the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's internal control environment for 2020/2021;

Background

- 14 The Public Sector Internal Audit Standards (PSIAS) established in 2013 and revised in 2017 are the agreed professional standards for internal audit in local government. PSIAS was the Code under which the Internal Audit Service operated during 2020/2021. It sets out the requirement for the Chief Internal Auditor and Corporate Fraud Manager (“Chief Audit Executive”) to report to officers and the Audit Committee (“The Board”) to help inform their opinions on the effectiveness of the Internal Control environment in operation within the Council.
- 15 The Annual Internal Audit Report should therefore be considered in the context of fulfilling the above requirement.
- 16 The annual internal audit opinion contributes to the completion of the Annual Governance Statement (AGS). It is specifically timed to be considered as part of the Council’s annual review of governance and internal control.
- 17 Internal Audit therefore has a professional duty to provide an unbiased and objective view of the Council’s Internal Control environment. Internal Audit is independent of the processes that it evaluates and as such reports to Corporate Management Team and the Audit Committee.
- 18 No system of internal control can provide absolute assurance against material misstatement or loss, nor can internal audit give absolute assurance.

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 Annual Internal Audit Opinion 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

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

Accommodation

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

Risk

The key risk is that the Chief Internal Auditor and Corporate Fraud Manager is unable to deliver an annual opinion to inform the Annual Governance Statement. 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.

Procurement

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



INTERNAL AUDIT

ANNUAL REPORT

2020 / 2021

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1. Introduction and Background

- 1.1 This report summarises the work carried out by internal audit during the financial year 2020/21 and provides assurance on the effectiveness of the Council's control environment, risk management and corporate governance arrangements in place during the year.
- 1.2 The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires Local Authorities 'make arrangements for the proper administration of their financial affairs and ensure that one of its officers has responsibility for the administration of those affairs'. Authority has been delegated to the Corporate Director of Resources to fulfil this function.
- 1.3 Part 2, Regulation 5 of the Accounts and Audit Regulations 2015 requires that "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 auditing standards or guidance".
- 1.4 From 1 April 2013 Public Sector Internal Audit Standards (PSIAS) define the proper internal control practices alongside the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note.
- 1.5 This report fulfils the requirement of PSIAS 2450 for the Chief Internal Auditor and Corporate Fraud Manager ("Chief Audit Executive") to provide an annual report to the Audit Committee ("The Board") timed to support the Annual Governance Statement (AGS).
- 1.6 The report sets out:
 - The annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
 - A summary of the audit work carried out from which the opinion is derived;
 - Details of the quality assurance arrangements in place during 2020/21 which incorporates the outcomes of the last annual review of the effectiveness of internal audit carried out by the External Assessor in July 2016 and the self-assessment completed in June 2021 to ensure conformance with the PSIAS.

2. Service Provided and Audit Methodology

- 2.1 Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
- 2.2 The primary objective of internal audit is to provide an independent and objective opinion on the Council's control environment.
- 2.3 The Internal Audit Charter, agreed by Corporate Management Team and the Audit Committee, establishes and defines the terms of reference and audit strategy for how the service is to be delivered. Audit services are also provided to a number of external clients including Durham's Police Crime and Victims' Commissioner and Durham Constabulary, Durham and Darlington Fire and Rescue Authority, Peterlee Town Council, Spennymoor Town Council, Shotton Parish Council, Horden Parish Council, Monk Hesleden Parish Council, Trimdon Parish Council, Beamish Museum and the Durham and Mountsett Crematoria Joint Committees. The service is also responsible for the internal audit of the Durham County Pension Fund.
- 2.4 The agreed audit strategy to provide independent assurance, is summarised as follows:
- To work in consultation with senior management teams and other providers of assurance to prepare strategic and annual audit plans.
 - To carry out planned assurance reviews of the effectiveness of the management of operational risks in all key service activities/systems over a rolling five year programme (Strategic Audit Plan).
 - To carry out assurance reviews of the management of strategic risks where the effective management of the risk is heavily dependent on identified controls.
 - To carry out annual reviews of key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial and non-financial systems.
 - To use a Control Risk Assessment (CRA) methodology to focus audit resources on providing assurance on key controls where there is little or no other independent assurance on their adequacy or effectiveness.

3. Types of Audit Work Carried Out in 2020/21

Assurance Reviews

- 3.1 Assurance reviews are those incorporated into annual audit plans from strategic plans where the CRA methodology is to be applied. They also include service requests to provide assurance on more specific risks within a particular service activity.
- 3.2 On completion of each assurance review an opinion on the adequacy and / or the effectiveness of the control framework in place is provided to inform the annual audit opinion.
- 3.3 The audit methodology for arriving at audit opinions on individual assurance reviews is attached at Appendix D.

Advice and Consultancy Work

- 3.4 In addition to planned assurance reviews, provision is also made in annual audit plans to support service managers by undertaking advice and consultancy type work. The outcomes from this work can also provide assurance on the control framework even though an assurance opinion is not provided on the completion of this work.

Counter Fraud Work

- 3.5 Provision is made in annual audit plans to support service managers at an operational level to mitigate the strategic risk of fraud and corruption. Control weaknesses identified when fraud is suspected or proven also impacts on the overall opinion on the adequacy and effectiveness of the Council's internal control system.

Grant Certification

- 3.6 Some provision is also made in internal audit plans for the certification of external grant claims where required. Again, the outcomes of this work can help inform the annual opinion on the control environment.

4. Audit Quality Assurance Framework

- 4.1 The Internal Audit Charter sets out the performance and quality framework for the service. This reflects the requirements of the PSIAS.
- 4.2 Key elements of the quality assurance framework operating during 2020/21 include:
- Independent quality reviews undertaken by audit managers as a matter of routine and periodically by the Interim Chief Internal Auditor and Corporate Fraud Manager to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained.
 - Key contacts, determined by appropriate Heads of Service, agree the Terms of Reference for each audit review and are able to challenge the findings and content of draft reports prior to them being finalised.
- 4.3 A summary of our performance against agreed indicators is provided in Appendix A.
- 4.4 As at 31 March 2021, the % of planned work completed indicated that the service has achieved its target to complete 90% of the audit plan in terms of productive days.
- 4.5 The PSIAS requires that the Council completes an annual review of the effectiveness of internal audit. The outcome is reported to Audit Committee. This was last completed in the form of an external assessment in July 2016 and a self-assessment in June 2021.
- 4.6 As per PSIAS requirements, an External Assessment must be completed once every five years. An External Assessment therefore has been performed by Newcastle City Council in April 2016 and reported to management and the Audit Committee in July 2016. The assessment involved an evaluation against the requirements of PSIAS, a sample review of audit files and working papers and an interview with the Corporate Director, Resources. The external assessment concluded "Durham County Council's Internal Audit Service **conforms** to the requirements of the Public Sector Internal Audit Standards".

5. Improvements made during the year to improve the quality and effectiveness of the service

5.1 The main areas of improvement which were identified through the last annual review of the effectiveness of the service related to a number of areas of PSIAS compliance and progress has been made in all areas. The areas highlighted in the last review and the progress made are highlighted below:

- PSIAS Ref 1130 – Audit Responsibilities are to be rotated periodically.

On 1 April 2020 audit responsibilities were reallocated across Principal Auditor and Senior Auditor level. Work is regularly allocated on the basis to ensure individual auditors gain experience in a variety of areas in order to maintain their training and development. The rotation of responsibilities occurs annually.

5.2 The service has a qualified IT auditor in the service who has been in post since September 2015.

5.3 The Corporate Fraud Team influences pro-active fraud work and promotes the counter fraud strategy across the organisation.

6. Summary of Audit Work Carried Out

Assurance Work

6.1 Our work programme for the financial year 2020/21 included work carried out between April 2020 and March 2021.

6.2 A summary of assurance work completed during the year is attached at Appendix E.

Advice and Consultancy Work

6.3 All planned reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks and the development of controls. This evaluation and challenge supports the effective and efficient use of resources and value for money (VFM).

6.4 Through our advice and consultancy work we are able to add value proactively and reactively.

- 6.5 Reactive work involves positively responding to ad-hoc requests for advice and reviews added to the audit plan to address new or emerging issues and risks. It also includes responding to potential fraud and irregularities and we ensure that all such incidents are properly investigated and that appropriate action is taken by managers, whether or not fraud or malpractice is proven. This work is delivered from the contingency provision within the audit plan.
- 6.6 A summary of key advice and consultancy work completed during the year is attached at Appendix B.

7. Key Areas for Opinion

- 7.1 The four main areas of the control environment considered when determining our assurance opinion are:
- Overall Control Environment
 - Financial Management
 - Risk Management
 - Corporate Governance
- 7.2 Assurance has been provided through reviews of all key financial systems which were conducted remotely throughout the year and where extended testing was undertaken in light of the considerable and ongoing impact of the coronavirus pandemic and in what, at times, were rapidly changing circumstances. It is acknowledged that whilst overall assurance in relation to key financial systems remains positive, testing of the control environment in operation during the year still highlighted some weaknesses in controls.
- 7.3 Independent assurance on the effectiveness of the Council's risk management arrangements has been provided by consideration of the adequacy and effectiveness of operational risk management through the risk based audit approach and the CRA methodology applied to individual audit assignments. This in turn provides some assurance on the management of related strategic risks.
- 7.4 A number of audits have been carried out during the year to provide independent assurance on the effectiveness of specific key corporate governance arrangements. In addition, compliance with relevant key council policies and procedures has also been considered as part of the risk based approach to the audit service related planned assurance reviews.
- 7.5 Key issues arising from audit work where controls have improved or further improvements have been identified are summarised in Appendix C.

7.6 The implementation of audit recommendations made to improve the control environment helps to embed effective risk management and strengthen the effectiveness of the Council's corporate governance arrangements. Details of progress made on the implementation of all High and Medium ranking recommendations are reported quarterly to Corporate Directors and the Audit Committee. A summary of progress on actions due at the 31 March 2021 is given below:

| Service Grouping | Number of Actions Due to be Implemented | Number of Actions Actually Implemented | Actions Overdue by Agreed Original Target Date | Actions with an Agreed Revised Target Date | Actions Overdue by Revised Target Date |
|--|---|--|--|--|--|
| Adult and Health Services (AHS) | 42 | 41 | 1 (2%) | 1 | 0 |
| Children and Young People's Service (CYPS) | 145 | 141 | 4 (3%) | 4 | 0 |
| Neighbourhoods and Climate Change | 50 | 49 | 1 (2%) | 1 | 0 |
| Regeneration, Economy and Growth (REG) | 117 | 108 | 9 (8%) | 9 | 0 |
| Resources (RES) | 276 | 237 | 39 (14%) | 39 | 0 |
| TOTAL | 630 | 576 | 54 (9%) | 54 | 0 |

7.7 The % of audit recommendations implemented by service managers within agreed target dates remains high and the Council out performs many of its benchmarked comparators. This statistic stands at 91% before revised targets are incorporated, this increases to 100% if revised to include revised target dates.

8. Audit Opinion Statement

8.1 The Council has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.

8.2 Internal Audit is required to provide an opinion on the Council's risk management, control and governance process.

8.3 In giving this opinion it should be noted that assurance can never be absolute and therefore only reasonable assurance can be provided that there are no major weaknesses in these processes.

8.4 In assessing the level of assurance to be given, we based our opinion on:

- All of the audit work undertaken during the year.
- Follow up actions on audit recommendations.
- Any significant recommendations not accepted by management and the consequent risk.
- The effects of any significant changes in the Council's systems.
- Matters arising from previous reports to the Audit Committee.
- Any limitations which may have been placed on the scope of the internal audit.
- The extent to which resource constraints may impinge on internal audit's ability to meet the full audit needs of the Council.
- The outcomes of the audit quality assurance process.
- The reliability of other sources of assurance considering when determining the scope of audit reviews.

8.5 We are satisfied that, whilst the coronavirus pandemic has had an impact in reducing the overall number of individual assurance audits delivered than would normally be expected, in prioritising audit activity to areas of key risk and when taken together with work other sources of assurance being identified from within services themselves, sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Councils system of internal control. Based on the work undertaken, we are able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2020/21. The level and nature of internal audit work undertaken has therefore not required the Interim Chief Internal Auditor and Corporate Fraud Manager to provide a formal Limitation on the Opinion to be delivered and as such there are no qualifications to this opinion. This moderate opinion ranking provides assurance that there is a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls.

- 8.6 This overall 'moderate' opinion reflects the widening scope of internal audit, with new audit areas being undertaken each year as part of the agreed audit strategy to review key service activities over a five year rolling programme. It is important to recognise however in many cases these audits are not performed annually unless they are key systems both financial and non-financial.

| Assurance Level | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Full | N/A | N/A | N/A | N/A | N/A | N/A | 0 |
| Substantial | 40 | 65 | 53 | 35 | 61 | 44 | 22 |
| Moderate | 51 | 60 | 39 | 34 | 67 | 46 | 20 |
| Limited | 12 | 6 | 16 | 22 | 10 | 7 | 3 |
| Total | 103 | 131 | 108 | 91 | 138 | 97 | 45 |

Note: For comparison purposes previous year reported figures include school based reviews which, because of COVID, were not undertaken for the majority of 2020/21.

- 8.7 The adequacy and effectiveness of key financial controls is a consideration in our opinion. Good progress continues to be made during the year, including improvements to a number of key financial systems which has provided a better operational platform for effective financial risk management.
- 8.8 Policies and procedures are now in place across most key financial systems however a number of our recommendations continue to relate to non-compliance where system owners are requested to send reminders to employees or offer refresher training as appropriate.
- 8.9 A number of the reviews during 2020/21 have referred to unsatisfactory compliance with the Council's Policies and Procedures. It is recognised that the Council is on a journey of Transformation and it is evident that there is a clear direction and drive from the organisation to change the culture and behaviours. It is important that internal audit contributes where it can to assist the organisation achieve its objectives and continually add value.
- 8.10 The Annual Internal Audit Report 2019/2020 identified that work was ongoing in relation to the effectiveness of the Council's Company governance. The Council's Company governance arrangements have been progressed during 2020/21 through a corporate group and where the Council has a significant interest or control in a company and on which the Chief Internal Auditor and Corporate Fraud Manager sits. The group operates in accordance with an agreed Terms of Reference. During the year the Group has addressed the improvement action raised within the Council's Annual Governance Statement 2019/20 having:
- Considered the Council's strategic approach to, and structure of, its' Companies and joint venture arrangements;

- Collated all relevant Register information (Articles of Association; Directorships, etc) and maintained a central of Companies, which will assist in the periodic review of arrangements;
- Prepared a guidance note for those considering establishing a new company and the key considerations to be addressed;
- Any proposals seeking to establish a new company are scrutinised and must be approved by the Company Governance Group before being able to progress; and
- Provided training to Managers to help develop expertise and resilience within the Council to support the companies as officers whose role in future might involve working with, or being appointed as a Director of a Council company. Training on local authority company governance has been included in the Council's Leadership and Development Programme.

8.11 Three Limited Assurance reports were issued in 2020/21 which is an improvement on previous years and one of these related to Schools. All audits with a limited assurance opinion have disclosed at least one high risk finding or a number of medium priority recommendations and these are subject to progress updates and a follow up audit approximately six months after the final report has been issued and are reported to Audit Committee on an exception basis.

8.12 It is especially pleasing to note that service groupings continue to value the work of internal audit and particularly around involving us in advice and consultancy work both where major systems or processes are being implemented or amended and especially in reacting to the day to day challenges of COVID-19. This is illustrated in the continuing work around key financial systems, e.g. Creditors, Debtors, Payroll and in the implementation of new IT software in Adult and Health Services. It is therefore important that service groupings continue to engage internal audit in work of this nature where controls and processes can be evaluated before implementation.

8.13 Where internal audit has identified areas for improvement, recommendations are made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within target dates is high, in many cases there is a time gap between a control weakness being reported and the date determined by management for when the action can practically and realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion. Work is ongoing with management with regard to timely and realistic implementation dates for actions being agreed.

PERFORMANCE INDICATORS

Appendix A

| Efficiency | | | |
|---|--|--|--|
| Objective: to provide maximum assurance to inform the annual audit opinion | | | |
| KPI | Measure of Assessment | Target (Frequency of Measurement) | Actual as at 31/03/2021 |
| Planned audits completed | % of planned assurance work from original approved plan complete to draft report stage | 90% (Annually) | 95% |
| Timeliness of Draft Reports | % of draft reports issued within 30 Calendar days of end of fieldwork/closure interview | 90% (Quarterly) | 98% (51 out of 52) |
| Timeliness of Final Reports | % of final reports issued within 14 calendar days of receipt of management response | 95% (Quarterly) | 100% (60 out of 60) |
| Quarterly Progress Reports | Quarterly progress reports issued to Corporate Directors within one month of end of period | 100% (Quarterly) | 100% |
| Quality | | | |
| Objective: To ensure that the service is effective and adding value | | | |
| KPI | Measure of Assessment | Target (Frequency of Measurement) | Actual as at 31/03/2021 |
| Recommendations agreed | % of Recommendations made compared with recommendations accepted | 95% (Annually) | 100% |
| Post Audit Customer Satisfaction Survey Feedback | % of customers scoring audit service satisfactory or above (3 out of 5) where 1 is poor and 5 is very good | 100% (Quarterly) | 100% - Average score 4.8 |
| Customers providing feedback responses | % of Customer returning satisfaction returns | 70% (Quarterly) | 84% |
| Cost | | | |
| Objective: To ensure the service is cost effective | | | |
| KPI | Measure of Assessment | Target (Frequency of Measurement) | Actual as at 31/03/2021 |
| Cost per chargeable audit day | CIPFA Benchmarking Club – Comparator Group (Unitary) | Lower than average | Yes (2015/16 exercise) £226 cost per chargeable audit day. |

KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2020/21

COVID Related Activity

In response to the considerable and ongoing impact of the coronavirus pandemic and in what, at times, were rapidly changing circumstances, Internal Audit has undertaken a wide range of COVID related activities that included; an evaluation of the control framework in place on the management of the risks associated with COVID 19 Expenditure; COVID-19 Area Budgets; COVID-19 Small Business Rates and Retail, Hospitality and Leisure grants pre and post payment checking, providing advice to the Council's Business Rates and Financial Payments Teams in relation to risk assessments and returns provided to the Department for Business, Energy & Industrial Strategy and in supporting the Corporate Fraud Team in investigations.

Information Governance

The service is represented on the corporate Information Governance Group (IGG) to provide advice and guidance and to carry out independent assurance work on the Council's information governance arrangements.

Grant Work

As the Council strives to maximise external funding to help it deliver its objectives, we have been increasingly required to provide independent assurance that funding is correctly spent by certifying grant claims. Such work adds value by ensuring no grant is lost through claw back or reputational damage that may impact on future external funding opportunities.

Review of Contracts

As part of our counter fraud programme we continue to work with colleagues in Corporate Procurement to identify purchases made outside of agreed contracts to highlight potential inefficiencies and detect any non-compliance with corporate procurement arrangements (potential fraud indicator).

Oracle Programme Board

The service was represented on the working group developing the continual improvements to the Oracle financial system and now continuous improvement to the system. This will ensure any upgrade and improvement works does not weaken the current control environment and ensures a proactive approach to auditing.

Liquid Logic

Assisting the Children and Young Peoples Service with advice and guidance in terms of the required controls for new systems developments.

Debtors Working Group

The service is represented on the working group to improve the sundry debtors processes, with a primary focus at present on recovery and streamlining and ensuring that monies are recovered in an efficient manner without increasing risk.

Procure to Pay: Performance and Improvement

The service is represented on the working group to improve the efficiency of payment to the Council's creditors and to ensure that all necessary steps are taken to avoid error in payments. This is again a proactive piece of work that should ensure when formal assurance work is completed on the key systems that improvements do not lead to any future control risks.

Payroll System (ResourceLink)

The service is represented on the project board and working groups for implementing the proposed new Payroll System. Ensuring no critical controls would be lost in any system migration and that benefits can be realised from the new system appropriately. Work continues on this project.

Petty Cash / Procurement Cards

Petty Cash arrangements are being reviewed alongside the use of Procurement Cards as an alternative. The Service is represented to give advice on controls and reconciliations to be put in place and to give counter fraud guidance as applicable.

General Data Protection Regulations (GDPR)

With the implementation of the new GDPR legislation on 25 May 2018 the service has sat on both the Information Governance Group and the GDPR specific task group giving advice and guidance on controls and data protection where applicable.

SSID Replacement - Azeus

Assisting the Adult and Health Services with advice and guidance in terms of the required controls when changing system. Work continues in this project.

Selective Licensing

Assisting the Regeneration, Economy and Growth Service with an intended introduction of selective licensing into the county the aim of which is to help to improve the standard of privately rented properties.

Company Governance

Assisting the Head of Legal and Democratic Services with advice and guidance as to the proper governance structures required within the Council to effectively report on the performance of companies in which the Council has an interest or control.

KEY CONTROL ISSUES

Key Financial Systems

The main areas where improvements were identified through the extended work undertaken in relation to debtors and creditors. A number of control weaknesses were identified primarily due to procedures not being followed.

It should be noted that there continues to be good progress made on the implementation of audit recommendations arising from both internal work and completion of internal audit work.

COVID Related Activity

Internal Audit has undertaken a wide range of COVID related activities in year to provide both an evaluation of the control framework in place on the management of risks together with ongoing advice to the Council's Business Rates and Financial Payments Teams in relation to risk assessments and returns provided to the Department for Business, Energy & Industrial Strategy and in supporting the Corporate Fraud Team in investigations.

Limited Assurance Opinions

During the year limited assurance opinions were delivered against the following areas with follow up working either currently being in progress or is planned to be completed in the coming months. In all cases an agreed action plan has been developed and is being implemented. The details of the issues raised can be found on Part B of the Audit Committee Papers held throughout the year. Below is a brief summary of the work that was carried out.

Fuel Stocks and Stores

A review that looked at:

- The effectiveness of fuel stocks management arrangements to ensure fuel stocks are safe and secure.
- Fuel stocks purchases are in line with contract procedure rules and achieve value for money.
- Fuel deliveries and issues are recorded and costed accurately.
- Fuel issues are monitored and managed to ensure appropriate usage.

Fuel Cards

A review that looked at:

- Fuel cards are issued where there is an identified business benefit for doing so.
- Fuel cards are used to purchase fuel at petrol stations where either the type of fuel is not available from council fuel stores, or if the travelling distance to council fuel stores would make fuelling there uneconomical.
- Fuel card purchases costs are correctly coded to services and vehicles.

Schools

One Primary School

School reviews attempt to support each Governing Body in providing an independent assurance opinion on the school's financial management and key governance processes.

They look at the effectiveness of:

- relevant key policies and procedures;
- the arrangements in place in school to identify, assess and monitor risks;
- the control design to ensure that the school's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money.

Fraud and Irregularity

Weaknesses in control identified through fraud and irregularity investigations.

The Counter Fraud and Corruption Strategy which was refreshed in February 2016 and potential cases of suspected fraud and / or irregularity are reported to internal audit. Details of cases reported and the work being undertaken to combat the strategic corporate risk of fraud are reported to Corporate Management Team and the Audit Committee in the Annual Protecting the Public Purse Report.

Findings

Individual findings are assessed on their impact and likelihood based on the assessment rationale in the tables below:

| Impact Rating | Assessment Rationale |
|----------------------|--|
| Critical | A finding that could have a: |
| | Critical impact on operational performance (Significant disruption to service delivery) |
| | Critical monetary or financial statement impact (In excess of 5% of service income or expenditure budget) |
| | Critical breach in laws and regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime) |
| | Critical impact on the reputation of the Council (Significant reputational damage with partners/central government and/or significant number of complaints from service users) |
| | Critical impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public) |
| Major | A finding that could have a: |
| | Major impact on operational performance (Disruption to service delivery) |
| | Major monetary or financial statement impact (1-5% of service income or expenditure budget) |
| | Major breach in laws, regulations or internal policies and procedures (noncompliance will have major impact on operational performance, monetary or financial statement impact or reputation of the service) |
| | Major impact on the reputation of the service within the Council and/or complaints from service users |
| Minor | A finding that could have a: |
| | Minor impact on operational performance (Very little or no disruption to service delivery) |
| | Minor monetary or financial statement impact (less than 1% of service income or expenditure budget) |
| | Minor breach in internal policies and procedures (noncompliance will have very little or no impact on operational performance, monetary or financial statement impact or reputation of the service) |

| Likelihood | Assessment criteria |
|-------------------|---|
| Probable | Highly likely that the event will occur (>50% chance of occurring) |
| Possible | Reasonable likelihood that the event will occur (10% - 50% chance of occurring) |
| Unlikely | The event is not expected to occur (<10% chance of occurring) |

Overall Finding Rating

This grid is used to determine the overall finding rating.

| LIKELIHOOD | | | |
|------------|--------|-------|----------|
| Probable | M | H | H |
| Possible | L | M | H |
| Unlikely | L | L | M |
| | Minor | Major | Critical |
| | IMPACT | | |

Priority of our recommendations

We define the priority of our recommendations arising from each overall finding as follows;

| | |
|----------------------|--|
| High | Action required, that is considered imperative , to improve the control environment so that objectives are not exposed to unacceptable risks through lack of or weaknesses in critical or key controls. |
| Medium | Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls. |
| Best Practice | The issue merits attention and its implementation will enhance the control environment. |

Overall Assurance Opinion

Based upon the ratings of findings and recommendations arising during the audit as summarised in the risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

| | |
|------------------------------|---|
| Substantial Assurance | There is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risks. |
| Moderate Assurance | Whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk. |
| Limited Assurance | There are weaknesses in key areas in the system of control, which expose objectives to unacceptable levels of risk. |

Summary of Assurance Work 2020 / 2021

Appendix E

| Service Grouping | Service | Audit Activity | Assurance Opinion |
|--------------------------------------|---|--|-------------------|
| Adult and Health Services | Adult Care | Caldicott Compliance (Social Care Direct - Data Protection) | Moderate |
| Adult and Health Services | Commissioning | Workforce Development Fund | Substantial |
| Children and Young People's Services | Early Help, Inclusion and Vulnerable Children | Aycliffe Secure Services - Physical Security | Substantial |
| Children and Young People's Services | Education | School Programme | 4 Substantial |
| | | | 3 Moderate |
| | | | 1 Limited |
| Neighbourhoods and Climate Change | Environment | Fuel Stocks and Stores | Limited |
| Neighbourhoods and Climate Change | Partnerships and Community Engagement | Community Grants Sample | Moderate |
| Regeneration, Economy and Growth | Corporate Property and Land | Asset Valuation - Pre Valuation Data Quality Checks | Substantial |
| Regeneration, Economy and Growth | Culture, Sport and Tourism | CLUK Income Share Agreement | Substantial |
| Resources | Corporate Finance and Commercial Services | Contract Management | Moderate |
| Resources | Corporate Finance and Commercial Services | Journal Transfers | Substantial |
| Resources | Corporate Finance and Commercial Services | Bank Reconciliation | Substantial |
| Resources | Corporate Finance and Commercial Services | Short Term Investments | Substantial |
| Resources | Digital and Customer Services | ICT Governance | Moderate |
| Resources | Finance and Transactional Services | Creditor Payments - Overarching Report | Substantial |
| Resources | Finance and Transactional Services | Creditors - Receipting of goods | Moderate |
| Resources | Finance and Transactional Services | Creditors - Extended Testing (Exceptions) | Substantial |
| Resources | Finance and Transactional Services | Creditors - Extended Testing (Manually scanned invoices paid late) | Substantial |

| Service Grouping | Service | Audit Activity | Assurance Opinion |
|-------------------------|------------------------------------|---|--------------------------|
| Resources | Finance and Transactional Services | Creditors - Extended Testing (Holds cleared but invoice not paid) | Substantial |
| Resources | Finance and Transactional Services | Creditors - Extended Testing (Unpaid Invoices more than 30 days old) | Substantial |
| Resources | Finance and Transactional Services | Payroll | Substantial |
| Resources | Finance and Transactional Services | Payroll: Access to Data - Records | Substantial |
| Resources | Finance and Transactional Services | Debtors - Overarching Report | Moderate |
| Resources | Finance and Transactional Services | Debtors - Extended Testing (Credit Notes) | Moderate |
| Resources | Finance and Transactional Services | Debtors - Extended Testing (Write Offs) | Moderate |
| Resources | Finance and Transactional Services | Debtors - Extended Testing (VAT analysis) | Moderate |
| Resources | Finance and Transactional Services | Cash Management - Overarching Report | Moderate |
| Resources | Finance and Transactional Services | Cash Management - Bishop Auckland Registrars | Moderate |
| Resources | Finance and Transactional Services | Budgetary Control and Financial Reporting | Moderate |
| Resources | Finance and Transactional Services | Deputy and Appointee Team - Compliance with Office of Public Guardianship Standards | Moderate |
| Resources | Finance and Transactional Services | Fuel Cards | Limited |
| Resources | Finance and Transactional Services | Agency System | Moderate |
| Resources | Finance and Transactional Services | Revenues and Benefits Reconciliations | Substantial |
| Resources | Finance and Transactional Services | Creditors - Supplier Masterfile | Substantial |
| Resources | Finance and Transactional Services | COVID-19 Expenditure Analysis | Substantial |
| Resources | Legal & Democratic Services | Scheme of Delegation | Substantial |
| Resources | People and Talent Management | Disciplinary Policy | Moderate |
| Resources | Transformation | GDPR Compliance - Data Breaches | Moderate |
| Resources | Transformation | Freedom of Information | Moderate |