

**Audit and Governance Committee
28th June 2021****ANNUAL INTERNAL AUDIT REPORT
2020/21****Report of the Audit Services and Fraud Manager – Shared Internal Audit Service****Lead Member for Financial Sustainability – Cllr Patrick Mulligan**

Ward(s) affected: All

1. Purpose of Report

- 1.1 To consider the key findings and conclusions from audit work undertaken in 2020/21 and to give an opinion on the overall adequacy and effectiveness of the Council's arrangements for risk management and governance and on its internal controls.

2. Recommendations

- 2.1 Members are recommended to note the contents of the report and note the opinion given based on the audit work undertaken during 2020/21.

3. Background Information

- 3.1 2020/21 was the final year of the 3 year Shared Internal Audit Service collaboration arrangement with Harrogate Borough Council, shared arrangements having been in place under previous agreements since April 2010. Under the terms of the contract, this agreement has now been extended for a further 2 years until 31st March 2023.

The service is hosted by Harrogate and provides 180 days per annum of audit time plus an additional 20 days per annum to be used at the discretion of Craven District Council's Chief Executive and Chief Finance Officer (s151 Officer).

In line with the previous collaboration arrangement, the Shared Service is managed by a Partnership Board, which consists of the Chief Finance Officers (s151's) of the two authorities.

- 3.2 The work of internal audit is governed by the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the Standards and the Council's Internal Audit Charter the Chief Audit Executive or equivalent is required to submit an annual report

which should include an overall opinion on the adequacy and effectiveness of the organisation's Risk Management and Governance arrangements and on its internal controls.

In addition, the report should:

- Include a summary of audit work actually undertaken to support the opinion
- Provide details of any qualification to the opinion, together with the reasons for the qualification (including any impairment to independence or objectivity)
- Comment on the performance of Internal Audit and its Quality Assurance and Improvement Programme.
- Comment on compliance with the PSIAS.

3.3 The Council is responsible for ensuring it complies with the law and proper standards to carry out its business. As such the Council is responsible for ensuring that effective Risk Management and Governance Arrangements and Internal Controls are in place in order to deliver value for money in the use of its resources and to achieve its corporate and service objectives.

3.4 Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of Risk Management, Control and Governance processes (PSIAS)

3.5 Internal Audit can provide reasonable assurance on the arrangements and controls examined. This does not imply infallibility. Internal Auditors cannot be expected to identify every weakness or irregularity. Also, Internal Audit is not an extension or substitute for management. It is for management to accept Internal Audit findings and implement recommendations or to accept the risks of not taking action.

4. Audit Approach

4.1 At the conclusion of all audit work undertaken, meetings have taken place between relevant service managers and chief officers to discuss and agree audit findings within our audit report. Representatives from Audit Services have attended all meetings of the Audit & Governance Committee during 2020/21 to present each audit report for scrutiny and challenge. Progress reports against the approved Audit Plan have also been submitted and discussed.

4.2 On reporting lines, the Audit Services and Fraud Manager has had regular meetings with the Chief Finance Officer (s151 Officer) and has also been given unrestricted access to both the Chief Executive and the Chair of this Committee. Meetings with the Chair of Audit & Governance have occurred in advance of every Audit & Governance Committee meeting.

- 4.3 On individual assignments, Internal Audit liaised with relevant Managers to agree the programme of work, kept them informed of progress during the course of the audit in question and subsequently discussed findings and agreed recommendations.
- 4.4 The level and mix of staff for each audit assignment has been determined by the knowledge and experience of the Auditors in the team, relative to the complexity of each audit. For example, the team's specialist auditor on ICT matters was allocated audit work in this service area.
- 4.5 During the year, the Audit Services Manager liaised with the Authority's external auditors, Mazars LLP. The objective was to maximise the benefit to the Authority from all audit work to avoid duplication of coverage and to learn from each other's findings to provide maximum assurance.
- 4.6 The achievement of the Annual Audit Plan depends upon the contribution of the Council's staff. Audit Services would like to record their appreciation for the involvement and commitment of staff and for their critical appraisal of the conclusions drawn and recommendations made.

5. Summary of Audit Findings

5.1 The Appendix attached to this report sets out details of all audits undertaken between 1st April 2020 and 31st March 2021. It includes details of planned audit days compared to actual days for each audit as well as the assurance level given and the number of recommendations made.

5.3 In summary:

- 1 audit brought forward from 2019/20 was completed during 2020/21.
- 5 planned audits from the approved 2020/21 audit plan were completed in the year.
- 1 audit was replaced with an investigation
- Follow up audits / 6 month reviews were completed within the year. These confirmed that good progress had been made by Management with the implementation of audit recommendations.
- 1 audit was postponed to 2020/21
- 2 audits are in progress
- Business grant verification and/or investigation work was completed and remains ongoing on a reactive basis.

5.4 The following assurance levels were awarded during the year:

	Audit work undertaken	Assurance Level awarded
1	Policy Management	Significant
2	Payroll	Postponed
3	Business Grant Investigation	N/A
4	Car Park Income	Significant
5	Business Grant Verification	N/A
6	Procurement Assurance/Contract Rules	In Progress

7	Risk Management Review	Partial
8	Business Continuity/Disaster Recovery	Good
9	ICT Data Security	Good
10	Climate Change	Postponed
11	S106	Good
12	VAT	In Progress
13	Duplicate Payments	N/A

The above results confirm that 80% of the audit work undertaken resulted in the auditor awarding either significant or good assurance score on the control environment in place. This represents a decrease from the position reported in 2019/20 (100%) but a slight increase on 2018/19 (75%).

6.0 Quality Assurance and Improvement (QAIP)

6.1 Under the PSIAS, the chief audit executive must develop a quality assurance and improvement programme (QAIP). The objectives are to assess the efficiency and effectiveness of internal audit activity, identify opportunities for improvement and to evaluate whether or not the Standards are being met.

6.2 The QAIP consists of:-

- Ongoing monitoring of the performance of internal audit
- Periodic self-assessments
- Maintenance of an internal audit manual
- An external assessment which must be undertaken every 5 years by a qualified independent assessor or assessment team from outside of the Authority. This assessment was most recently completed in 2021 (relating to 2020), and reported that Internal Audit Services were for the most part, compliant with PSIAS with one exception of non-compliance. An action plan is in place to address this.

6.3 Ongoing Monitoring

There are management and supervision arrangements within Audit Services in order to ensure that each audit assignment meets the required quality standards. These involve discussions between Audit Management and the individual Auditor concerned during the planning of the audit to ensure that the key risks are covered, during fieldwork and at draft and final report stages. The purpose is to ensure that the engagement, evidence and reporting requirements set out in the PSIAS are met, together with the Code of Ethics (Integrity, Objectivity, Confidentiality, Competency).

6.4 Following each applicable audit, Audit Services send out a post audit questionnaire (PAQ) to the relevant Client Manager for feedback on the quality of the audit from the client perspective and on whether any improvements could be made. The PAQ asks 9 questions and provides for responses ranging from "very satisfied" to "very dissatisfied". In 202/21 100% of responses received were either satisfied or very satisfied with the work of the internal audit team.

7.0 Audit Opinion

7.1 The Public Sector Internal Audit Standards (Performance Standard 2450) states that:

“The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.”

This must be based on an objective assessment of the framework of governance, risk management and control within the Council’s governance, operations and information systems.

7.2 ***The overall opinion is that, based on the audit work undertaken during 202/21, the council’s framework of governance, risk management and internal control is satisfactory and operating effectively in practice.***

8. Implications

8.1 Financial and Value for Money Implications

The contribution paid by Craven District Council towards the cost of the Shared Service for 2020/21 was £53,000 plus VAT.

8.2 Legal implications

This report is submitted to comply with the requirements of the Public Sector Internal Audit Standards.

8.3 Contribution to Council Priorities

Enterprising Craven – Facilitating economic growth across Craven.
Resilient Communities – Creating sustainable communities across Craven.
Financial Sustainability – ensuring a self-sustainable Council

8.4 Risk Management

The internal Audit function is an integral part of internal control. The major risks to the provision of the service to Craven include:-

- Insufficient resources and capacity – for example due to long-term sickness or vacant posts. If this situation arises it will be addressed by the Internal Audit Shared Service Partnership Board, reporting to the respective audit committees of the two Councils if necessary.
- The effect of Covid-19 and the subsequent reallocation of audit resources to undertake post government grant verification work.

- The need for a major investigation which will mean that some planned work will have to be deferred or an increase in the days provided at an additional cost to Craven.

8.5 **Equality Impact Assessment**

The Council's Equality Impact Assessment Procedure has been followed. An Equality Impact Assessment has not been completed on the proposals as completion of Stage 1- Initial Screening of the Procedure identified that the proposed policy, strategy, procedure or function does not have the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

8.6 **Chief Finance Officer (s151 Officer) Statement**

It is important that the Committee monitors progress against the agreed annual Internal Audit Plan.

Monitoring Officer Statement

An effective internal audit function supports the Council's governance framework.

9. **Consultations with Others**

Chief Executive, Chief Finance Officer and S151 Officer, Financial Services, Members of Audit and Governance Committee.

10. **Access to Information : Background Documents**

None

11. **Author of the Report**

Alison Johnson, Audit Services and Fraud Manager, Craven District Council and Harrogate Borough Council Shared Internal Audit Service.

Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions. (Telephone 01423 500600. Email Alison.Johnson@harrogate.gov.uk)

12. **Appendices**

Appendix 1 – Internal Audit Planned Work 2020/21

APPENDIX 1

Internal Audi Planned Work 2021

Audit Work	Planned Days	Actual Days	Assurance Level	Number of Recommendations
6 Month Review/Follow up work:				
Follow up of recommendations	5	5	N/A	N/A
2019/20 Audits				
Policy Management	15	15	Significant	1
2020/21 Audits				
Car Park Income	10	10	Significant	3
Payroll	6	1.5	Replaced	N/A
Business Continuity and Disaster Recovery	15	15	Good	8
Post Business Support Grant Verification	30	30	N/A	N/A
Procurement Assurance/Contract Procedure Rules	10	3	In Progress	
Risk Management Review	18	18	Partial	9
ICT Data Security	15	15	Good	3
Climate Change	10	1	Postponed	
S106	10	15	Good	10
VAT	10	2	In Progress	
Contingency (Business Grants)	20	20	N/A	N/A

Duplicate Payments	1	1	N/A	N/A
CDC Auditing Reporting / Committee Papers / Audit Reviews	20	20	N/A	N/A
Total 2020/21	180	171.5		
b/fwd 2019/20	15			
TOTAL	195	171.5		