



ANNUAL INTERNAL AUDIT REPORT 2019/20

<p>Report By: Neil Carpenter Internal Audit Manager</p>	<p>Date: 19 June 2020</p>
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1. Purpose of the Annual Internal Audit Report

- 1.1 The Accounts and Audit Regulations 2015 requires that the Council ensures that a sound system of internal control exists. The system of internal control is designed to ensure that the council is able to achieve its aims and objectives, comply with the law, ensure financial management is effective, safeguard assets from losses due to fraud and error and have effective arrangements in place to manage risk.
- 1.2 In accordance with the Public Sector Internal Audit Standards and, to support the content of the Annual Governance Statement, The Internal Audit Manager must provide a report to those charged with governance, that sets out:
- The effectiveness of the Council's risk management and internal control environment.
 - Presents a summary of the audit work from which the opinion is derived
 - Discloses any qualifications to that opinion together with the reasons for the qualification.
 - Compares the work undertaken with the work that was planned and summarise the performance.
 - Reports on the performance of the internal audit function.
 - Comments on compliance with the Public Sector Internal Auditing Standards.

2.0 Internal Audit Approach

- 2.1 This report will provide the annual internal audit opinion on the internal control framework that the Council had in place for 2019/20. In order to provide this opinion Internal Audit carried out a number of planned reviews identified within the annual internal audit plan.
- 2.2 A risk based Internal Audit Plan for 2019/20 was approved by the Audit Committee in March 2019.
- 2.3 Each review included in the annual plan would normally result in a formal report being issued to management. However due to the impact of COVID-19 in March, 3 planned reviews were not completed during 2019/20. However, sufficient work was completed to enable an opinion on the internal controls in place to be provided for these 3 reviews.
- 2.4 Work carried out during the year has been carried out in accordance with the Public Sector Internal Auditing Standards.

- 2.5 For each review carried out an opinion was provided on the adequacy of the system of internal control. There are four categories of assurance on internal control that can be provided these being:

Level of Assurance
Substantial assurance: can be given where there is a sound system of controls in place which are applied consistently to enable achievement of the intended objective.
Satisfactory assurance: can be given when there is generally a sound system of internal control in place with only minor lapses, and in general objectives are being achieved.
Limited assurance: is given where controls in place are not always applied and objectives may not be achieved, meaning the Council is exposed to the risk of financial loss, fraud or the loss of reputation.
No assurance: is given where weaknesses in control has resulted if a failure to achieve objectives.

3.0 Internal Audit Opinion

- 3.1 The annual opinion on the risk and control framework provided by the Audit Manager is based on:

- The levels of assurance provided on each internal audit review carried out.
- That appropriate actions are taken by management to resolve risk issues identified by Internal Audit during 2019/20.
- That during 2019/20 no frauds were identified.
- Internal controls were sufficient to prevent attempts of fraud.
- That appropriate processes were in place to manage risk.

- 3.2 During 2019/20 a limited level of assurance was provided on 7 internal audit reviews. We provided a satisfactory level of assurance on 5 reviews.

- 3.3 Whilst we did receive appropriate responses from management to resolve risk issues identified during 2019/20, we have yet to see whether actions taken by management are sufficient to improve the internal control framework.

- 3.4 We believe that there are sufficient controls in place to manage the risk of fraud.
- 3.5 We believe that appropriate processes were in place to manage risk during 2019/20.
- 3.6 I am satisfied that based on the resources available that sufficient work has been carried out during 2019/20, to draw a reasonable conclusion on the effectiveness of the council's internal control and risk management framework.
- 3.7 The 2019/20 Internal Audit Plan was substantially delivered. It should be noted that the impact of COVID-19 did result in 3 reviews not being fully completed. However sufficient work had been completed to enable an opinion to be provided on the control in place for each of these reviews.
- 3.8 It is important to note that the overall opinion on the internal control framework is not based solely on assurances from internal audit reviews. Other factors are also considered which include:
- Statutory officers are all in place and have been throughout the year.
 - Internal controls have been sufficient to mitigate the risk of fraud.
 - Internal controls are sufficient to ensure intended outcomes of the Council have been substantially met.
 - The Council has maintained an appropriate level of services to our customers and stakeholders during the year.
 - Appropriate separation of duties is in place.
- 3.9 No opinion can be absolute it is not possible to eliminate risk completely. Internal controls in place are considered to be sufficient to manage risk to a level that is acceptable to the Council. The overall opinion provided on the internal control framework for 2019/20 is therefore considered to be **satisfactory**.
- 3.10 However there are qualifications to this opinion. These qualifications are based on internal audit reviews where only a limited opinion was provided on the internal control framework was provided. The reasons for qualifications are given below:

Area of Review	Reasons for Limited Opinion
Accounts Payable	<ul style="list-style-type: none"> • Financial Regulations need to be reviewed and updated. • The use of purchase orders does not always comply with the purchase to pay process. • Procurement rules need to be reviewed and updated.
Accounts Receivable	<ul style="list-style-type: none"> • Recovery action is not effective in that all options are not used in a timely manner.

Credit Card Usage	<ul style="list-style-type: none"> • Credit Card Policy was not always adhered to. • Supporting information was not always retained for all purchases.
Housing Benefits	<ul style="list-style-type: none"> • Processing of new claims did not meet agreed performance targets. • The recovery of overpayments is not effective.
Payroll	<ul style="list-style-type: none"> • Data Management weaknesses • Up to date and readily available key HR policies were not always easy to find.
Main Accounting	<ul style="list-style-type: none"> • Integrity of data conversion from the legacy finance system to the new version of Integra. • 2019/20 opening balances had not been brought forward into the accounts until March 2020.
Rent Deposits	<ul style="list-style-type: none"> • Inconsistent approach to manage outstanding balances.

4.0 Compliance with Public Sector Internal Auditing Standards

4.1 The service substantially complies with the requirements of the Public Sector Internal Auditing Standards, a review of performance against the standards was carried out in March 2020, as part of reporting and monitoring compliance, a summary of the current status is shown below.

Category	Number of Standards	Standards Met	Standards Partially Met	Standards Not Met
Code of Ethics	12	12	0	0
Purpose, authority and responsibility	3	3	0	0
Independence and objectivity	12	12	0	0
Proficiency and due professional care	12	12	0	0
Quality assurance and improvement programme	7	5	0	2
Managing the internal audit activity	10	9	1	0
Nature of work	13	13	0	0
Engagement planning	18	16	2	0

Performing the engagement	8	8	0	0
Communicating results	16	16	0	0
Monitoring progress	3	2	1	0
Communicating the acceptance of risks	1	1	0	0
Public Sector Specific Standards	14	13	1	0
	129	122	5	2

5.0 Fraud

- 5.1 Internal Audit will always consider the risk of fraud in all reviews that are carried out. It should be noted that during 2019/20, other than Housing Benefit and Single Person Discount Fraud, no frauds were identified that required a formal investigation.
- 5.2 The Audit Manager is the key contact for managing the follow up of data matches identified as part of the National Fraud Initiative.
- 5.4 Fraud Awareness Training was provided to all employees and to members during 2019/20, half yearly newsletters were also produced to continue to raise awareness of fraud risk.

6.0 Risk Management

- 6.1 Responsibility for the management of risk lies with management. Internal Audit facilitate the process and will review the effectiveness of controls in place to manage risk.
- 6.2 The effectiveness of the risk management framework is reported to the Audit Committee. Internal Audit are satisfied that the framework in place is satisfactory.