

AUDIT COMMITTEE

1st OCTOBER 2020

REPORT OF INTERNAL AUDIT MANAGER

A.1 REPORT ON INTERNAL AUDIT – MARCH 2020 - AUGUST 2020 AND THE ANNUAL REPORT OF THE INTERNAL AUDIT MANAGER

(Report prepared by Craig Clawson)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide a periodic report on the Internal Audit function for the period March 2020 – June 2020 and the Internal Audit Managers Annual Report for 2019/20 as required by the professional standards.

EXECUTIVE SUMMARY

This report is split into three sections with a summary as follows:

1) *Internal Audit Plan Progress 2019/20*

- The 2019/20 Internal Audit Plan was completed with sufficient work undertaken in order for the Internal Audit Manager to provide an opinion in the Annual Head of Internal Audit Report
- Three audits were deferred from the 2019/20 to the 2020/21 Internal Audit Plan due to the unforeseen global pandemic. The outstanding audits were either already at fieldwork stage or due to commence in March 2020. The audits delayed were Health and Safety, Financial Resilience and North Essex Garden Communities.

2) *Annual Report of Internal Audit Manager*

- The Annual Report of the Acting Audit and Governance Manager concludes that an unqualified opinion of Adequate Assurance is provided. The direction of travel regarding the overall internal control environment since 2018/19 has not changed, due to some areas of the Council requiring further improvement. There continues to be an open dialogue with Senior Management on risk and a generally sound system of internal control and governance arrangements in place.

3) *Internal Audit Plan Progress 2020/21*

- A total of 17 audits from the 2020/21 Internal Audit Plan have been allocated, are in progress or fieldwork has been completed. Four Audits have been completed with no significant issues identified.
- Additional audits are proposed to be included within the Internal Audit Plan due to the impact of COVID-19
- Third party Internal Audit Service provision will be required to support the additional work required within the work programme.

RECOMMENDATION(S)

- That the reports be considered and noted; and
- the additional proposed audits be included within the 2020/21 Internal Audit Plan

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Provision of adequate and effective internal audit helps demonstrate the Council's commitment to corporate governance matters.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The Internal Audit function is operating within the budget set.

Risk

Review of the functions of the Council by Internal Audit assists in identifying exposure to risk, and its mitigation.

LEGAL

The Council has a statutory responsibility to maintain adequate and effective internal audit.

The Accounts and Audit Regulations 2015 make it a statutory requirement that the Council 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 and guidance.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

Internal Audit activity assists the Council in maintaining a control environment that mitigates the opportunity for crime.

During the course of internal audit work issues regarding equality and diversity, and health inequalities may be identified and included in internal audit reports.

There is no specific effect on any particular ward.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

The Public Sector Internal Audit Standards require the Acting Audit and Governance Manager to make arrangements for reporting to senior management (Management Board)

and to the board (Audit Committee) during the course of the year, and for producing an annual Internal Audit opinion and report that can be used to inform the Annual Governance Statement.

INTERNAL AUDIT PLAN PROGRESS 2019/20

The 2019/20 Internal Audit Plan is complete with the exception of three audits being deferred to the 2020/21 Internal Audit Plan. The Audit Committee agreed to defer both the North Essex Garden Communities and Financial Resilience Audits to the 2020/21 Audit Plan in March 2020 and the Health and Safety review had to be stopped during fieldwork due to the impact of COVID-19 on the service.

All further audits completed during March 2020 to June 2020 received satisfactory assurance opinions with no significant issues being identified

An update is usually provided to the Audit Committee on continuous and consultative work undertaken by the Internal Audit Team to ensure that the Audit Committee is aware of service area supportive work that is not measured in the same way as a standard Internal Audit.

Unfortunately, due to the impact of COVID-19 the Internal Audit Team was unable to provide the same level of support to the transformation programme and the digital transformation programme due to other emergency planning priorities across the District. However, support

However, an update can be provided on the Northbourne Security Review. The Corporate Director responsible for Northbourne Depot has provided the following verbal update.

- The locks on the compound area had been changed with limited access to specific Officers
- The CCTV System has been fully upgraded
- An electronic gate has been installed on the front entrance to the depot which requires fob access and is locked in the evenings and weekends
- The job scheduling system is currently being implemented

Internal Audit are supporting the service on the implementation of the job scheduling system, this is a staged process which will potentially benefit other service areas such as Horticultural Services and Facilities Management in the long term if implemented effectively.

Quality Assurance – The Internal Audit function issues satisfaction surveys for each audit completed. In the period under review 100% of the responses received indicated that the auditee was satisfied with the audit work undertaken.

Resourcing

Internal Audit is currently working with an establishment of 3 fte with access to a third party provider of Internal Audit Services for specialist audit days as and when required.

In March 2020, we were in the process of recruiting a new Apprentice to the team. Due to COVID-19 all recruitment was put on hold and we were therefore not in a position to continue with the recruitment process.

From March 2020 until July 2020 we were unable to undertake Internal Audits as we normally would because every service area across the Council had to adapt to changes required by their service due to the global pandemic. In order to support the Council and the emergencies it faced, the Internal Audit Team offered up resource to tackle the emerging challenges.

Initially it was an all hands on deck situation where we as a team were helping out wherever we could. The Internal Audit Manager joined Silver Command within our Emergency Planning function as the information and communication lead.

Our two Auditors were helping the support hubs taking phone calls and ensuring the most vulnerable in the community received the food parcels that were being distributed. At the same time we continued to ensure that audits where information was readily available either online or on the network continued to progress to ensure that we did not fall too far behind on the audit plan.

Outcomes of Internal Audit Work

The standards require the Acting Audit and Governance Manager to report to the Audit Committee on significant risk exposures and control issues. Since the last report nine audits have been completed and the final report issued. The Public Sector Internal Audit Standards require the reporting of significant risk exposures and control issues.

Assurance	Colour	Number this Period	Total for 2019/20 Plan	
Substantial		1	7	
Adequate		4	16	
Improvement Required		0	3	
Significant Improvement Required		0	0	
No Opinion Required		2	5	Five Consultative Reviews Complete in 2019/20

For the purpose of the colour coding approach, both the substantial and adequate opinions are shown in green as both are within acceptable tolerances.

Issues arising from audits completed in the period under review receiving an ‘Improvement Required’ opinion and requiring reporting to Committee are: -

There were no significant issues identified within audits completed during this period.

Management Response to Internal Audit Findings – There are processes in place to track the action taken regarding findings raised in Internal Audit reports and to seek assurance that appropriate corrective action has been taken. Where appropriate follow up audits have been arranged to revisit significant issues identified after an appropriate time.

The number of high severity issues outstanding was as follows: -

Status	Number	Comments
Overdue more than 3 months	0	
Overdue less than 3 months	5	All outstanding findings relate to Planning Enforcement and Housing Allocations with further updates reported below
Not yet due	1	

Update on previous significant issues reported

Housing Allocations

The service previously stated that they were awaiting the approval for a new Housing Allocations System to be implemented as the previous Northgate module was no longer fit for purpose. A verbal update has been provided by the service and a new system is currently at a testing phase with a soft implementation date in November 2020. Internal Audit will review the implementation process as part of the Housing Allocations Follow-Up Audit.

Planning Enforcement

A verbal update has been provided by the Planning Manager. Some work had begun to implement the changes required for Planning Enforcement; however, due to the impact of COVID-19 they have not been able to fully implement all agreed actions because the work was being led by the Corporate Enforcement Group which met for the first time in August 2020 since lockdown in March 2020 due to the priorities of the Officers of the group moving on to Emergency Planning.

Work on the Planning Enforcement Policy is still ongoing but use of the Planning System is expected for all complaints and HARM assessments are expected to be completed for every review. All of which will be assessed fully as part of the Planning Enforcement Follow-Up Audit.

ANNUAL AUDIT REPORT OF INTERNAL AUDIT MANAGER

As set out in the Public Sector Internal Audit Standards (PSIAS) there is a requirement under PSIAS 2450 that the Chief Audit Executive must provide an annual report to the Audit Committee, timed to support the Annual Governance Statement. This must include:

- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment);
- A summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies); and
- A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

The Council adopts a 'Three Lines of Defence' assurance model which is taken from the following sources;

1. Senior Management and Departmental Leadership

Under the first line of defence, operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.

2. Internal Governance

The second line of defence consists of activities covered by several components of internal governance (Statutory Officers, Corporate Oversight Functions, Quality Control, IT Security, Data Protection and other control departments). This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation.

3. Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit Regulations 2015, which states that a relevant body 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.

Internal Audit Approach

The Internal Audit function undertakes a programme of audits each year to provide the Council and its Audit Committee with assurance on the adequacy of its system of internal control, governance and risk management arrangements. The audit programme has been developed to risk based and comprise of different audit techniques to make it leaner and more supportive of service delivery to meet the Council's needs.

Internal Audit has continued to work with services on a consultancy basis to support the implementation of new processes, identify and analyse root cause if necessary and ensure that all relevant employees have the appropriate training to competently carry out their role. Transformation, Project Management, Procurement and Risk Management are some of the areas where this type of work has been undertaken and continues to collaborate resources.

In 2019/20 to date, only three audits from a total of 34 undertaken received an overall audit opinion of "Improvement Required" where high severity issues were identified. The audits were Planning Enforcement, Housing Repairs and Maintenance and Housing Allocations Follow Up. Improvement actions are in place for all of the above audits which are followed up by the Internal Audit function to assess the progress of implementation. All significant issues were reported to the Audit Committee with required improvement actions throughout the year to provide a continuous update on the councils control environment, governance arrangements, material issues identified and improvement actions.

Annual Opinion 2019/20

The assurance opinion is based on:

- Internal Audit work completed during the course of the year;
- observations from consultancy/ advisory support;
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- a review of assurance from other providers including those from first and second lines of defence, independent regulators and peer reviews;
- the extent of resources available to deliver the internal audit work; and
- the quality and performance of the Internal Audit service and the extent of compliance with the Public Sector Internal Audit Standards

Limitations to the Annual Opinion

As the COVID-19 pandemic forced a national lockdown in March 2020 and as a result forced the Council in to remote working and in some areas a complete halt on service provision other than emergency work, it did become particularly challenging to complete outstanding audits. However, with exception to one core audit (Health and Safety), fieldwork has been completed on all other audits within the audit plan. Health and Safety priorities shifted in March 2020 which meant their workload increased dramatically due to the pandemic. Therefore a decision was taken to suspend work on the audit to support the Health and Safety Team during the lockdown period.

The Head of Internal Audit Annual Opinion

The overall direction of travel regarding the internal control environment since 2018/19 has improved in core areas such as the Council's key systems, there are some service areas requiring further improvement and others where expected controls and risk mitigation has not been implemented as expected; however, as the majority of audits in 2019/20 continued to receive an adequate or substantial assurance opinion it is reasonable to suggest that there has not been a considerable deterioration in internal control and operational processes within the year.

Governance arrangements and internal controls have been evaluated in all audits within the plan, albeit with varying levels of scope. Senior Management continue to review strategic risks on a regular basis within Management Team and the Corporate Risk Register is reviewed bi-annually with any feedback reported to Management Team for consideration.

The majority of the year has been unaffected by the COVID-19 pandemic and therefore the annual opinion will reflect normal operations. However, governance arrangements and key systems will need to be reviewed from March 2020 to provide assurance that good governance and control remain strong in light of the procedural changes across all service areas.

The opinion of the Internal Audit Manager is drawn from all of the information reported above, external reviews carried out throughout the year from other assurance providers and through the ongoing work in supporting Senior Management and Services in delivering the Councils objectives and vision.

The Internal Audit function is expected to commission an independent assessment on compliance with the Public Sector Internal Audit Standards that have been set by the Institute of Internal Auditors (IIA) and adopted by the Chartered Institute of Public Finance and Accountancy (Cipfa) every five years. Internal Audit received an independent report in

2017/18 concluding conformance with the standards which was reported to the Audit Committee. Although this assessment is undertaken, the Internal Audit function must continue to complete an annual Quality Assurance and Improvement Programme (QAIP) which is a self-assessment questionnaire against the PSIAS. A (QAIP) was completed and presented to the Audit Committee for review in January 2020.

The Internal Audit Manager is satisfied that sufficient work was completed in 2019/20 to draw a reasonable conclusion on the adequacy and effectiveness of the Council's activities. The internal control environment continues to remain stable with no significant changes from 2018/19, an open dialogue with Senior Management on risk remains in place and a generally sound system of internal control has been assessed across the majority of the Councils operational areas. Therefore, an overall unqualified opinion of Adequate Assurance can be provided.

The above report has been included within the Councils Annual Governance Statement as part of its statutory responsibilities.

INTERNAL AUDIT PLAN PROGRESS (2020/21)

A total of 17 audits from the 2020/21 Internal Audit Plan have been allocated, are in progress or fieldwork has been completed. Four Audits have been completed with no significant issues identified.

Internal Audit have been working closely with services to maintain a control environment while moving to fully electronic service provision across the Council. The team has also been supporting some departments with the implementation of new systems and supporting our Emergency Planning function wherever possible.

From July 2020, Internal Audit has been able to progress further with audits allocated within the Internal Audit Plan as services are now adapting to the new normal.

Due to the impacts of COVID-19 it is proposed that some changes be made to the Internal Audit Plan to incorporate risk areas that have emerged. Some areas that we would like to add to the audit plan for consideration are as follows;

- Fraud and Corruption – During a major crisis, attempts to defraud organisations increases. Although the Council has remained diligent during this time it is felt that allocating Internal Audit resource to review areas where potential fraud could occur would support the mitigation of this emerging risk.
- Change Management – Internal Audit have supported many of the Councils services to become electronic to enable remote working. However, the resource has not been available until now to assess those changes since being implemented therefore we would like to allocate audit days to review new arrangements.
- GDPR – It is felt that due to the speed in which the Council has had to create new arrangements working with its partners, a review of data sharing arrangements would be very important at this time.
- Financial Strategy and Resilience is already on the Internal Audit Plan for review however emphasis on risks arisen since the global pandemic will now be included.
- The impact on governance arrangements due to COVID-19

The review will cover the impact on governance falling into the following broad categories:

- *Impact on business as usual in the delivery of services*
- *New areas of activity as part of the national response to coronavirus and any governance issues arising*
- *The funding and logistical consequences of delivering the local government response.*
- *Assessment of the longer term disruption and consequences arising from the coronavirus pandemic*

Work on the above areas will of course add additional pressure to the current resources available and it is therefore proposed to use external Internal Audit provision to support the In-House Team in completing the audits within the current plan and free up resources to undertake work on the additional audits required.

Furthermore, some work had begun on the Carbon Neutrality audit with initial assessments indicating that it may be worth waiting until 2021/22 to allow work to begin on the agreed action plan for the Council. This will then free up a further 10 resource days for the Internal Audit Team to use for the additional audit reviews proposed.

Appendix B – 2020/21 Internal Audit Plan progress report; provides an update on the status of each audit to date.

There are no significant issues or particular areas of concern to report at this time.

BACKGROUND PAPERS FOR THE DECISION

Audit Reports

APPENDICES

Appendix A – 2019/20 Internal Audit Plan Progress Report
Appendix B – 2020/21 Internal Audit Plan Progress Report