



# **INTERNAL AUDIT ANNUAL REPORT**

## **2019/20**

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## 1. INTRODUCTION

### The Annual Reporting Process

- 1.1 This is the annual report of the Chief Internal Auditor, which sets out the results of the work of Internal Audit for 2019/20. The report has been presented to the Executive Management Team and the Executive Director Resources & Support Services (and Section 151 Officer) in support of the findings and recommendations, enabling an overall opinion to be provided, which will be included in the Annual Governance Statement for 2019/20.

### Requirement for Internal Audit

- 1.2 The **role of internal audit** is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of a Council's internal control system because it measures and evaluates the adequacy and effectiveness of controls so that:

- Members and senior management can know the extent to which they can rely on the whole system; and
- Individual managers can know how reliable the systems are and the controls for which they are responsible.

- 1.3 Our mission is;

*“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”*

The accepted definition from the Institute of Internal Auditors states:

*“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.”*

- 1.4 The internal control system is comprised of the whole network of systems and controls established to manage the Council to ensure that its objectives are met. It includes financial and non-financial controls, and also arrangements for ensuring that the Council is to achieve value for money from its activities.
- 1.5 The requirement for an Internal Audit function derives from local government legislation including Section 151 of the Local Government Act 1972 which requires authorities to “make arrangements for the proper administration of their financial affairs”. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that a relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.”

## 2. ADEQUACY AND EFFECTIVENESS OF THE INTERNAL CONTROL ENVIRONMENT

### How Internal Control is Reviewed

- 2.1 In 2019/20 an annual risk based audit plan was produced and approved by the Audit & Standards Committee in April 2019. The plan took into account the adequacy of the organisations risk management and other assurance processes. The plan outlined the areas that were to be reviewed in 2019/20 in terms of their priority and resources required to undertake them.
- 2.2 This risk based approach to audit planning results in a comprehensive range of audits that are undertaken during the course of the year to support the overall opinion on the control environment. Examples include:-
- system based reviews of all key financial systems that could have a material impact on the accounts e.g. payroll, creditors, council tax and housing benefits;
  - regulatory audits of Council establishments e.g. Kidsgrove Sports Centre ;
  - systems based reviews of departmental systems/service areas e.g., human resources, and safeguarding;
  - corporate reviews e.g. corporate governance arrangements and contract management, and
  - a small contingency for special investigations and the provision of ad hoc advice.

### Internal Audit Opinion for 2019/20 and the Annual Governance Statement (AGS)

- 2.3 Regulation 4 of the Accounts and Audit Regulations 2015 requires that:-

*“The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes risk management arrangements.”*

*“The relevant body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall publish a statement on internal control, prepared in accordance with proper practices, with any statement of accounts it is obliged to publish.”*

- 2.4 Internal Audit, along with other assurance processes of the Council, have a responsibility to provide assurance from the work they undertake during the year in respect of the internal control systems operating within the Council.

*Based on the work undertaken during the year and the implementation by management of the audit recommendations made, Internal Audit can provide assurance that the Council’s systems of internal control are **Well Controlled**. Controls are operating adequately and there were no breakdown of controls resulting in material discrepancy.*

- 2.5 However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks. These risks are reflected in the audit plan and are the subject of separate reports during the course of the year.

### Significant Issues

- 2.6 Two reports were issued 2019/20 that had negative opinions. These were Absence Management and Recycling which both had 'Less than Adequate' opinions. Internal Audit will continue to monitor recommendations to ensure appropriate management action is taken to address the weaknesses identified.

### 3. SUMMARY OF INTERNAL AUDIT WORK 2019/20

- 3.1 The Internal Audit Plan identified 33 audits (including 6 IT audits) to be undertaken in 2019/20. During these reviews the following objectives of internal audit were considered:
- to review and appraise the soundness, adequacy and application of the whole system of internal control;
  - to ascertain the extent to which the whole system of internal control ensures compliance with established policies and procedures;
  - to ascertain the extent to which the assets and interests entrusted to or funded by the Authority are properly controlled and safeguarded from losses of all kinds;
  - to ascertain that management information is reliable as a basis for the production of financial, statistical and other returns;
  - to ascertain the integrity and reliability of information provided to management including that used in decision making, and
  - to ascertain that systems of controls are laid down and operate to achieve the most economic, efficient and effective use of resources.

### Audits Completed

- 3.2 During the period April 2019 to March 2020, 15 reports were completed and issued. A summary of the level of assurance for all audits undertaken in 2019/20 and the recommendations made, by risk category, is given in the table below. For further details on audits undertaken during 2019/20 see Table 7A, Appendix A1. A summary chart is also provided at Appendix A2.

**Table 1 – Opinions Made 2019/20**

Assurance		Audits	
		No.	%
Well Controlled	Positive Opinion	9	60.0%
Adequately Controlled	Positive Opinion	4	26.7%
Less than adequately controlled	Negative Opinion	2	13.3%
Poorly Controlled	Negative Opinion	0	0.0%
<b>Total</b>		<b>15</b>	<b>100.0%</b>

Opinions are classified as:

**Table 2 – Opinion Definitions**

<b>Well Controlled</b>	Controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (VFM)
<b>Adequately controlled</b>	There are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.
<b>Less than adequately controlled</b>	Controls are in place but operating poorly or controls are inadequate. Only limited assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.
<b>Poorly controlled</b>	Controls are failing or not present. No assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.

3.3 A total of 58 recommendations were made during 2019/20, recommendations are classified as:

**High Risk** – Action that is considered imperative to ensure that the authority is not exposed to high risks; (Implemented within 1 month)

**Medium Risk** – Action that is considered necessary to avoid exposure to significant risks; (Implemented within 3 months)

**Low Risk** – Action that is considered desirable and which should result in enhanced control or better value for money.

The 58 recommendations can be broken down as follows;

**Table 3 – Recommendations Made 2018/19**

<b>Risk</b>	<b>No.</b>	<b>%</b>
High	0	0%
Medium	40	69%
Low	18	31%
<b>Total</b>	<b>58</b>	<b>100%</b>

**Status of recommendations**

3.4 Having accepted the recommendations made as a result of internal audit work, senior managers are responsible for ensuring their prompt implementation. From the information provided, the reported status of the (58) recommendations made during 2019/20 shown over.

<b>Status</b>	<b>No.</b>	<b>%</b>
Implemented	38	65.5%
Not implemented*	20	34.5%
Issued (i.e. not yet reached the due date)	0	0.0%
<b>Total</b>	<b>58</b>	<b>100.0%</b>

\* Revised target dates have been agreed for all recommendations not yet implemented.

- 3.5 Recommendations made during 2019/20 will continue to be monitored and information provided by managers is recorded and monitored through to completion.
- 3.6 In addition to the internal audit work undertaken, a number of IT audits have been undertaken by Information Security Advice Limited. During 2019/20, 4 IT audits were undertaken all of which were given “Reasonable” assurance (see Appendix A1, Table 7B). Details of the opinions used and definitions are included in table 4 below.

**Table 4 – IT Audit Opinion Definitions**

<b>Substantial</b>	The framework of control is good, and controls are generally operating well. (although potential enhancements may have been identified)
<b>Reasonable</b>	The control framework is adequate, but the review identified a number of controls where opportunities exist to improve the effectiveness of the system of internal control.
<b>Limited</b>	Adequate controls are not in place to meet all the system objectives. The review identified significant opportunities to improve the effectiveness of the system of internal control.
<b>None</b>	The control framework is inadequate and there is an absence of basic controls. The system is open to compromise, abuse, significant error or loss and/or misappropriation.

- 3.7 A summary of the recommendations made is provided in Table 5 below.

**Table 5 – IT Audits - Recommendations Made 2019/20**

<b>Risk</b>	<b>No.</b>	<b>%</b>
High	3	17.6%
Medium	6	35.3%
Low	8	47.1%
<b>Total</b>	<b>17</b>	<b>100.0%</b>

#### 4 AUDIT PERFORMANCE

4.1 In order to monitor performance against the work identified within the annual plan, Internal Audit work is monitored on a regular basis. Table 6 analyses the status of the planned work at the end of March 2020, showing whether the work had been completed/in progress, or has still to be started. Of the planned work identified in the 2019/20 Audit Plan, 73.3% of the work had either been completed or was underway at the end of March 2020; the remaining 26.7% was carried forward into 2020/21.

**Table 6 – Summary of Audit Plan 2019/20**

Category	Planned Audits	
	No.	%
Complete	19	63.3%
In Progress	2	6.7%
Deferred	9	30.0%
Sub Total	30	100%
Not required	3	
<b>Total</b>	<b>33</b>	

4.2 During 2019/20 the internal audit team were involved in special investigations which meant that a number of planned audits were not undertaken. Whilst flexibility was included in the original plan to support internal investigations, this has not been sufficient to cover all the work required. Reviews of planned work were therefore undertaken at quarter 2 and quarter 3 and it was agreed that a number of audits would be deferred. These were Jubilee 2, Major projects, commercial review, GDPR compliance, project management, Application system security (Mitre Finch – Time Recording System / Guard and Payroll systems), planning and brexit. These audits were risk assessed and where appropriate, included in the 2020/21 audit plan. In addition, it was identified during quarter 4 that the Elections audit would also need to be deferred.

4.3 Audit reports were produced continually throughout the year. A schedule of reports issued was produced on a quarterly basis and presented to the Audit Committee. Not all areas of work originally scheduled for 2019/20 were completed within the year. The outstanding work has been:

- Deferred to 2020/21 (as detailed above), in which case it will be scheduled into the appropriate quarter of the 2020/21 plan, or
- Subject to a reassessment of risk and the work reclassified, or
- Deemed no longer applicable.

4.4 At the end of 2019/20 a number of audits were in progress and had yet to be finalised and issued. These reviews will be completed and reported through the regular quarterly monitoring process. Further details are provided in Table 8, Appendix A2.

#### 5. FRAUD & IRREGULARITY WORK

### **Pro-active Fraud work**

- 5.1 The Internal Audit section has taken a proactive approach to the prevention / detection of fraud and corruption. During the year it has continued working with Stoke on Trent City Council on the development of the Staffordshire Counter Fraud Partnership.

### **Fraud/Irregularity Investigations**

- 5.2 A number of special projects have been carried out on suspected breaches of council policy, procedures and regulations. In all cases where a lack of managerial controls are found to contribute to the improper conduct of officers; a managerial report is completed which highlights the weakness and makes recommendations accordingly. The recommendations from these reports are followed up in the usual way.
- 5.3 No allegations have been received through the Council's Confidential Reporting or Antifraud and Bribery frameworks in the year.

### **National Fraud Initiative Data matching**

- 5.4 The Council is a statutory participant in the Cabinet Office's National Fraud Initiative (NFI) exercise which is carried out every 2 years. The most recent matches have recently been received and are being reviewed by the relevant departments.

## **6. REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT**

- 6.1 The Public Sector Internal Audit Standards (PSIAS), which came into force in April 2013; updated August 2017, apply across the whole of the public sector and provide a framework for internal audit which:
- defines the nature of its work;
  - sets out its basic principles;
  - aims to improve organisational processes and operations; and
  - forms a basis to evaluate its performance.
- 6.2 Local authorities must demonstrate their compliance with the new standards. Compliance against the Standards is to be subject to periodic self-assessment, supplemented by an external assessment conducted at least once every 5 years. In January 2017, an external review of the internal audit service was undertaken by CIPFA. The review concluded that Internal Audit is effective and conforms sufficiently to the requirements of PSIAS to ensure that the opinion given in the Annual Report can be relied upon for assurance purposes.
- 6.3 In order to ensure the quality of each audit, each report is subject to a review by a more senior auditor. This process forms part of the internal quality assurance process and helps to ensure a consistent approach between auditors.

## **7. NON AUDIT AREAS**

- 7.1 This is work undertaken by the Internal Audit Section that is not directly related to audit areas and includes administration, supporting the corporate management of the authority, professional and staff training.

## **8.0 OPERATIONAL PLANS FOR 2020/21**

- 8.1 From 1 April 2020, a full internal audit service will be delivered by Stoke-on-Trent City Council. The provision of IT Audit skills is a specialist area and one that is constantly changing. However, it is anticipated the majority of IT audit needs can be delivered internally by Stoke-on-Trent City Council auditors.
- 8.2 Internal Audit will continue to identify ways to actively promote awareness of risks in relation to fraud and corruption in line with the national strategy 'Fighting Fraud Locally'. Training and awareness will continue to be raised across the organisation. During 2020/21 a fraud awareness e-learning package provided by the Staffordshire Counter Fraud Partnership will be rolled out across the organisation.
- 8.3 The service will continue to review and improve its service where appropriate. It will also ensure that adequate training is provided and the role of the Audit and Standards Committee is developed in line with best practice.
- 8.4 The Chief Internal Auditor will ensure that mentoring and training opportunities are available for the team to ensure that they continue to develop and improve their knowledge and experience in all aspects of audit and fraud work.

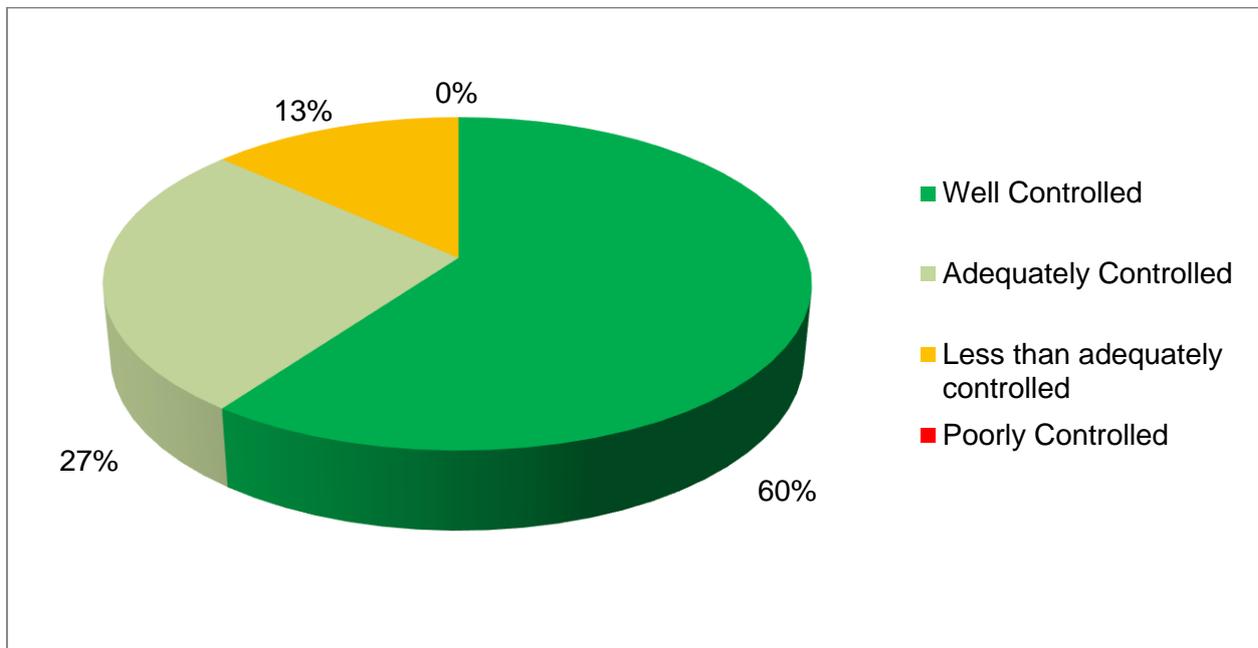
Table 7A - Summary of Issued Reports 2019/20

Audit Area	Level of Assurance	Number of Recommendations			
		High	Medium	Low	Total
<b>Chief Executive</b>					
Absence Management	Less than adequately controlled	0	14	1	15
<b>Operational Services</b>					
Recycling	Less than adequately controlled	0	13	2	15
<b>Resources and Support Services</b>					
Purchase to Pay	Well Controlled	0	1	0	1
General Ledger, main accounts	Well Controlled	0	0	1	1
Sundry Debtors	Well Controlled	0	0	0	0
NNDR	Well Controlled	0	0	0	0
Asset Management (Capital)	Well Controlled	0	0	0	0
Council Tax	Well Controlled	0	0	0	0
Housing Benefits	Well Controlled	0	0	1	1
Income Collection	Well Controlled	0	0	0	0
Treasury Management	Well Controlled	0	0	1	1
<b>Corporate</b>					
Risk management	Adequately Controlled	0	2	6	8
Procurement	Adequately Controlled	0	5	1	6
Corporate Governance	Adequately Controlled	0	2	3	5
Contract Management Governance	Adequately Controlled	0	3	2	5
<b>Total Recommendations</b>		<b>0</b>	<b>40</b>	<b>18</b>	<b>58</b>

Table 7B – IT Audit – Summary of Issued Reports 2019/20

Audit Area	Level of Assurance	Number of Recommendations			
		High	Medium	Low	Total
<b>Resources and Support Services</b>					
Housing Systems – Access Security	Reasonable	1	3	2	6
Identity and Access Management	Reasonable	0	2	2	4
Malware Prevention	Reasonable	0	0	3	3
Cyber - Information Security	Reasonable	2	1	1	4
<b>Total Recommendations</b>		<b>3</b>	<b>6</b>	<b>8</b>	<b>17</b>

Chart 1 – Summary of Opinions 2019/20



NB Chart excludes IT audits, 100% Reasonable Assurance.

Table 8 - Work-in-Progress as at 31 March 2020

Directorate	Audit	Status (Preparation, Fieldwork / Draft / Since issued)	Opinion
Resources and Support Services	Payroll	Fieldwork	TBA
	IT Governance	Fieldwork	TBA