



## **Internal Audit Annual Report 2019/20 and Head of Internal Audit Opinion**

### **Purpose**

- 1.1 This report provides Committee with the Annual Internal Audit Opinion as required by the Public Sector Internal Audit Standards, together with a summary of the work that the Council's Internal Audit Service has undertaken during 2019/20.
- 1.2 The report also provides information on the performance of the Internal Audit service in 2019/20 and an assessment of the conformance against the Public Sector Internal Auditing Standards.

### **Recommendations**

- 2.1 To consider and note the Internal Audit Annual Report and Opinion for 2019/20.

### **Reasons**

- 3.1 The Audit and Accounts Committee is responsible for providing assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment.

### **Supporting information**

- 4.1 The Public Sector Internal Audit Standards (PSIAS) requires that the 'Chief Audit Executive' (in the case of Derby City Council the Head of Internal Audit) must deliver an annual internal audit opinion and report that can be used by the Council to inform its Annual Governance Statement.
- 4.2 The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and internal control. The annual report must also include a statement on conformance with the PSIAS and the results of the Quality Assurance and Improvement Programme (QAIP).
- 4.3 Internal Auditing is defined as "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". (Public Sector Internal Audit Standards – PSIAS).

- 4.4 The Council's internal audit service is provided by the Central Midlands Audit Partnership. Derby City Council is the host authority for the Partnership.
- 4.5 There are many changes both internal and external which can have an effect on the Council's operations. All change within an organisation leads to an element of risk and the proper objective and independent consideration of these risks, provided by internal audit, is vital to the operation of an organisation.
- 4.6 The Chartered Institute of Public Finance and Accountancy (CIPFA) Statement on the Role of the Head of Internal Audit in Public Service Organisations (2019) states that "The head of internal audit (HIA) plays a critical role in delivering the organisation's strategic objectives by objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control."
- 4.7. The work of internal audit over the year allows the Head of Internal Audit to form the annual internal audit opinion as required by the PSIAS. The opinion is set out within the annual internal audit report (see Appendix 1) which provides this Committee with a level of assurance that internal audit can provide on the Council's arrangements for governance, risk management and internal control.
- 4.8 The audit opinion relative to the organisation as a whole, could fall into one of the following 3 categories:
- Inadequate System of Governance, Risk and Internal Control – Findings indicate significant weaknesses and the need for urgent remedial action. Where corrective action has not yet started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weaknesses identified.
  - Adequate System of Governance, Risk and Internal Control Subject to Reservations – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.
  - Satisfactory System of Governance, Risk and Internal Control - Findings indicate that on the whole, arrangements are satisfactory, although some enhancements may have been recommended.
- 4.9 The Head of Internal Audit's opinion for 2019/20 is that there is an **"Adequate System of Governance, Risk and Internal Control Subject to Reservations "**.
- 4.10 This opinion reflects the level of system weaknesses found by internal audit and the number of audits that have resulted in assurance ratings of either "limited" (20 of the 65 audits completed or at draft stage) or "none" (two audits) and the number of recommendations made to address significant risks (32). The Head of Internal Audit is satisfied that management is making sufficient progress with implementing the required remedial action to address these weaknesses.
- 4.11 It should also be borne in mind that the majority of the recommendations made to address significant risk issues (23 of the 32) were contained in the system weakness report arising from the investigation in to the A52 Project Overspend.

- 4.12 The Head of Internal Audit's opinion is an important source of assurance for the Council and its primary purpose is to provide an independent evaluation of the effectiveness of the Council's risk management, control and governance processes. It is not dependent on any changes to the financial reporting deadlines.

## **Public/stakeholder engagement**

- 5.1 None

## **Other options**

- 6.1 None

## **Financial and value for money issues**

- 7.1 The Council's contribution to CMAP for 2019/20 was £478,530.

## **Legal implications**

- 8.1 The Accounts and Audit Regulations 2015 state 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".

## **Other significant implications**

- 9.1 None

**This report has been approved by the following people:**

<b>Role</b>	<b>Name</b>	<b>Date of sign-off</b>
<b>Legal Finance Service Director(s) Report sponsor Other(s)</b>	Director of Financial Services	16 <sup>th</sup> July 2020

<b>Background papers:</b>	None
<b>List of appendices:</b>	Appendix 1 – Annual Internal Audit Report 2019/20