

Report sponsor: Strategic Director of Corporate Resources
Report author: Head of Internal Audit

Internal Audit Annual Report 2020/21 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 2020/21.
- 1.2 The report also provides information on the performance of the Internal Audit service in 2020/21 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 2020/21.

Reasons

- 3.1 The Audit and Governance 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 (CMAP). Derby City Council is the host authority for the Partnership.
- 4.5 There are many changes both internal and external which can influence 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 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.
- 4.9 The impact of COVID-19 on all the public services has been considerable and for internal auditors it has raised the question of whether they will be able to undertake sufficient internal audit work to gain assurance during 2020/21 and thereby have sufficient evidence to support the annual audit opinion. The factors impacting on the availability of assurance from internal audit and other sources of assurance have included:
- the changing risks and impacts on the Council
 - whether key governance, risk management and internal control arrangements have deteriorated or been maintained
 - changes to the resource base of internal audit, whether staff or budget related
 - demands on internal audit for any advisory or non-audit support that will not directly support the HIA opinion
 - operational disruptions that impact on the access of internal auditors to key staff, information or systems resulting in greater inefficiency and reduced outputs.

If these factors had not been promptly considered, then the Head of Internal Audit faced the risk of "limitation of scope" in terms of providing an annual opinion (i.e. not performing sufficient work to enable an opinion to be derived).

- 4.10 The factors were assessed by the Head of Internal Audit an early stage and the following mitigating actions put in place:

- Reviewed the audit processes and streamlined these where necessary.
 - Narrowed the focus of audit scopes to examine only key risks
 - Prioritised assurance work and consultancy/advisory work that could support the annual opinion.
 - Increased communication with client services to help ensure good co-operation and try to avoid unnecessary delays in undertaking audit assignments.
 - Refocused the plan so as not to impact on those services that were key to delivering the Council's response to the pandemic.
 - Sought to minimise the level of non-audit work.
- 4.11 The decision to move to a quarterly based internal audit plan for 2020/21 was a significant factor in internal audit being able to meet the demands of a changing risk environment at the Council and also to provide a more flexible and agile internal audit approach.
- 4.12 CMAP's partnership with KPMG meant that should an occurrence have arisen where they needed additional capacity/resources, they could have bought in audit expertise from KPMG. Although two internal audit staff were deployed to assist other teams in the Council and CMAP also had a couple of episodes of unexpected absences, they were able to achieve 84.6% of their 2020/21 plan – the target in a normal year is 90%.
- 4.13 The Head of Internal Audit has confirmed that he has obtained sufficient evidence across each of the three aspects of the opinion (governance, risk management and internal control) to enable him to reach an overall audit opinion for the Council for 2020/21.
- 4.14 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.
- 4.15 The Head of Internal Audit's opinion for 2020/21 is that there is an **"Adequate System of Governance, Risk and Internal Control Subject to Reservations "**.

- 4.16 This opinion reflects the level of risk areas and weaknesses found by internal audit and the number of audits that have resulted in assurance ratings of either “limited” (9 of the 51 audits completed) or “none” (one audits). However, the number of recommendations made to address significant risks (8) was much lower than in previous years. It also reflects the varying levels of assurance that the Head of Internal Audit has assessed from other sources – particularly in respect of referrals of fraud/financial irregularities and the Council’s management of fraud risk, data breaches, project management, and issues raised in whistleblowing referrals (around processes and adherence to policy).
- 4.17 The Head of Internal Audit is satisfied that in the main, management is making sufficient progress with implementing the required remedial action to address these weaknesses, although there are still areas where implementation of agreed actions is not being progressed satisfactorily, or insufficient evidence is available to demonstrate the recommendation has been implemented. There are also still isolated instances of non-response to draft audit reports.

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 2020/21 was £496,714.

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".

Climate implications

- 9.1 None

Other significant implications

- 10.1 None

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal		
Finance		
Service Director(s)		
Report sponsor	Strategic Director of Corporate Resources	7 June 2021
Other(s)		

Background papers:	None
List of appendices:	Appendix 1 – Annual Internal Audit Report 2020/21