

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

## **Internal Audit Annual Report 2021/22 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 2021/22.
- 1.2 The report also provides information on the performance of the Internal Audit service in 2021/22 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 2021/22.

### **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. 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 2021/22.
- 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. The decision to move to a quarterly based internal audit plan from 2020/21 is a significant factor in internal audit being able to meet the demands of a changing risk environment at the Council and to provide a more flexible and agile internal audit approach.
- 4.9 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.
- 4.10 The Head of Internal Audit's opinion for 2021/22 is that there is a **"Satisfactory System of Governance, Risk and Internal Control "**.

- 4.11 This opinion reflects the level of risk areas and weaknesses found by internal audit in the 62 audits completed (including schools) and is based on the number of Substantial/Reasonable ratings (37 audits) and the number of audits that have resulted in limited assurance ratings (7 audits). It also reflects the varying levels of assurance that the Head of Internal Audit has assessed from other sources – referrals of fraud/financial irregularities, the Council's management of risk, data breaches, project management, and process/policy issues raised in whistleblowing referrals.
- 4.12 The Head of Internal Audit is satisfied that in the main, management is making 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 that 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 2021/22 was £502,178, less a one-off rebate from the CMAP Reserve of £121,355.

### **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:**

<b>Role</b>	<b>Name</b>	<b>Date of sign-off</b>
<b>Legal</b>		
<b>Finance</b>		
<b>Service Director(s)</b>		
<b>Report sponsor</b>	Strategic Director of Corporate Resources	6 <sup>th</sup> June 2022
<b>Other(s)</b>		

<b>Background papers:</b>	None
<b>List of appendices:</b>	Appendix 1 – Annual Internal Audit Report 2021/22