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Derby City Council –

Internal Audit Annual Report 2020-21

Audit & Governance Committee: 16th June 2021

Derby City Council

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Our Vision

To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

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Providing Excellent Audit Services in the Public Sector

Introduction

Why an Audit Opinion is required

The Public Sector Internal Audit Standards (PSIAS) states:

> **Public sector requirement**
>
> The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
>
> The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
>
> The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Extracted from Public Sector Internal Audit Standards Updated March 2017 - 2450 Overall Opinions

In this instance, the Chief Audit Executive is Richard Boneham, Head of Internal Audit.

With regard to overall opinions, CIPFA's Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards 2019 Edition (issued February 2019) also states:

"The Public Sector Requirement in PSIAS 2450 requires that the Chief Audit Executive must provide an annual report to the board 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 providers)*
- *a statement on conformance with the PSIAS and the results of the Quality Assurance and Improvement Programme.*

In local government, the annual opinion should be guided by the CIPFA Framework Delivering Good Governance in Local Government.

The annual report should also include:

- *disclosure of any qualifications to that opinion, together with the reasons for the qualification*
- *disclosure of any impairments ('in fact or appearance') or restriction in scope*
- *a comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets*
- *any issues the Chief Audit Executive judges particularly relevant to the preparation of the annual governance statement*
- *progress against any improvement plans resulting from QAIP external assessment.*

In the context of the PSIAS, 'opinion' means that internal audit will have done sufficient, evidenced work to form a supportable conclusion about the activity that it has examined. Internal audit will word its opinion appropriately if it cannot give reasonable assurance (e.g. because of limitations to the scope of, or adverse findings arising from, its work)."

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How an Audit Opinion is Formed

Internal Audit's risk-based plan must take into account the requirement to produce an annual internal audit opinion. Accordingly, the Audit Plan must incorporate sufficient work to enable the Head of Internal Audit to give an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.

Audit Opinion

Possible Overall Opinions

The Head of Internal Audit's 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.

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Quality Assurance and Improvement Programme

A quality assurance and improvement programme is designed to enable an evaluation of the Internal Audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the Internal Audit activity and identifies opportunities for improvement.

Public Sector Internal Audit Standards state:

> **Public sector requirement**
>
> The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

Extracted from Public Sector Internal Audit Standards Updated March 2017 - 1320 Reporting on the Quality Assurance and Improvement Programme

Public Sector Internal Audit Standard 1312 also requires that:

"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation."

Assessments are based on the following 3 ratings:

- **Generally Conforms** - means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards.

- **Partially Conforms** - means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.

- **Does Not Conform** - means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

An external quality assessment of the internal auditing activities of CMAP was undertaken during the period February – April 2017 and identified some opportunities for further improvement and development. The consultant provided an update position on our overall conformance with the Standards in September 2017 and was content to re-assess our conformance as follows:

	Number of standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	19	0	0
Performance Standards	33	33	0	0

As required, we have also undertaken a self-assessment against the Standards in April 2021 using the tool specifically developed by the Institute of Internal Auditors (IIA) for this purpose. As such, the CMAP has identified a number of actions for improvement some of which are listed in the QAIP – Improvement Plan section to the rear of this report.

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In November 2020 we also undertook a self-assessment of our conformance against the Practice Guide - Demonstrating the Core Principles for the Professional Practice of Internal Auditing. The IIA's self-assessment tool was used once again. The resulting IIA Core Principles Action Plan is appended to this report.

We have determined that CMAP **Generally Conforms** ' to the Standards. 'Generally Conforms' means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

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Audit Opinion 2020-21

Based on the work undertaken during the year, I have reached the overall opinion that there is an **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.

I have arrived at this opinion having regard to the following:

- The level of coverage provided by Internal Audit was considered adequate to support the opinion.

  Note: The COVID-19 pandemic did impact on Internal Audit's ability to undertake all the work it planned to do in 2020/21. Some audit reviews, particularly of front-line services, could not be commenced or were delayed, as those teams were fully committed to delivering essential services. However, those audit reviews that were an essential component to inform the annual opinion were either completed or sufficiently completed to enable the overall opinion to be determined.

- The 2020-21 Internal Audit Plan, approved by the Audit & Accounts Committee on 29th July 2020, was informed by internal audit's own assessment of risk and materiality in addition to consultation with Senior Management to ensure it aligned to the organisation's key risks and objectives.

- The changing risk environment within the Council has been taken into account during the 2020-21 financial year.

  Note: The impact of the COVID-19 pandemic on the 2020-21 governance, risk and control environment has been considered and has been reflected in the 2020-21 internal audit plan which was reviewed and revised on an on-going basis to reflect the risks faced by the Council.

- There was no change in the Statutory Officer roles during the year. The Director of Financial Services became the Strategic Director of Corporate resources on 1st September 2020, retaining the role of s151 Officer. There were no major changes in directorate structures, although Property Services reverted to Corporate Resources from Communities and Place. Structural changes did take place within Policy, Insight and Communications department.

- Work has been planned and performed so as to obtain sufficient information and explanation considered necessary, in order to provide evidence to give reasonable assurance that the Council's control environment is operating effectively.

- Our organisational independence and objectivity has not been subject to any impairment in fact or appearance; nor has the scope of our work been restricted in any way.

- A risk management framework exists that informs the internal audit plan.

- Our insight gained from our interactions with Senior Management and the Audit & Accounts Committee.

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- The number of audits that have resulted in assurance ratings of either "limited" or "no" assurance. There were nine audits categorised as limited assurance and one with a "no" assurance rating. To reach my overall opinion, I have also considered the findings of those audits at draft report stage.

  Note: Those audits at draft report stage, do not take into account management responses on recommendations made. However, they will have been agreed with the auditee at a closing meeting.

- The degree to which recommended actions have been implemented to address our concerns over risk and control weaknesses within the Council.

- Although some audits were not deemed as "assurance audits" (i.e. investigation work, consultancy and advice work) they have highlighted issues around governance, risk and control that generally require either remedial or mitigation actions.

The following tables summarise the 2020-21 Audit Plan assignments and their outcomes as well as those assignments from the 2019-20 Audit Plan which were still ongoing in 2020-21.

2020-21 Jobs	Status	% Complete	Assurance Rating
People Services			
Direct Payments	Deferred to 21/2	0%	
Pre-Paid Cards	Final Report	100%	Reasonable
School Admissions	Final Report	100%	Substantial
Independent Review for Chief Executive	Complete	100%	N/A
School – Consultancy re Financial Processes	Final Report	100%	N/A
School - Mileage Expenses *	Draft Report	95%	
Corporate Resources			
Data Quality & Performance Management	Deferred to 21/2	0%	
Project Delivery - Fact Finding	Complete	100%	N/A
Grant Certification Work 2020/21	Complete	100%	N/A
Budget Management	In Progress	60%	
Payment Systems - In Light of Covid 19	In Progress	15%	
Procurement Cards 2020/21	In Progress	65%	
Covid19 Business Support Grants	Complete	100%	N/A
Financial Reporting - Impact of Covid19 *	Fieldwork Complete	90%	
People Management	Final Report	100%	Reasonable
Democratic Services - Impact of Covid 19 *	Draft Report	95%	
Insurance 2020-21	In Progress	65%	
SR5 - Non-complaint condition of council properties*	Draft Report	95%	
Asbestos Removal Contract Management	Final Report	100%	Substantial
SR8 - Poor Data and Records Management *	Fieldwork Complete	90%	
Microsoft 365 Security	Final Report	100%	Reasonable
File Server Security Risk	Final Report	100%	N/A
Boundary Defence	In Progress	25%	
Controlled Use of Administrative Privileges	Final Report	100%	Reasonable
Back Up Files – Follow Up	Final Report	100%	N/A
Folder Access Control Settings	Final Report	100%	N/A

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Domain Password Security	Final Report	100%	N/A
Data Security Risk	Final Report	100%	N/A
Test & Trace Support Payments	Complete	100%	N/A
Communities & Place			
Business Continuity - In Light of Covid 19	In Progress	15%	
Sinfin Waste Plant	In Progress	25%	
Neighbourhood Boards	Final Report	100%	Reasonable
Section 106 Agreements 2020-21	In Progress	70%	
RAM Energy	Final Report	100%	N/A
Parking Permits	Deferred to 21/2	5%	
Strategic Housing	Deferred to 21/2	0%	
Strategic Housing - Disabled Facilities Grants	Final Report	100%	Reasonable
Covid 19 Discretionary Support Grants	Complete	100%	N/A
Covid - Community Hub	Allocated	0%	
Leisure & Business Development	Complete	100%	N/A
Fact Finding Investigation - Grant Payment	Complete	100%	N/A
Schools			
Schools SFVS Annual Report 2020/21	In Progress	50%	
12 Schools SFVS	Complete		2x substantial, 9x reasonable, 1x limited.

| B/Fwd Jobs	Status	% Complete	Assurance Rating
People Services			
Billing for Home Care	Final Report	100%	Reasonable
Adult Learning Service - Cultural Change	Final Report	100%	Reasonable
Special Educational Needs - Action Plan	Final Report	100%	Limited
Translation Services - Follow Up	Final Report	100%	Reasonable
NHS - IT Toolkit	Final Report	100%	Reasonable
Peoples - Risk Management **	Merged	100%	
Corporate Resources			
Main Accounting 2019-20	Final Report	100%	Substantial
Taxation	Final Report	100%	Substantial
Debt Recovery	Being Merged	100%	
Creditors - Follow Up	Final Report	100%	Substantial
HR Strategy - Project	Final Report	100%	N/A
Attendance Management - First Care	Final Report	100%	Substantial
CMIS – Information Security	Final Report	100%	N/A
SIRO / Caldicott Guardian	Final Report	100%	Reasonable
Legal Case Management System Security – F/Up	Final Report	100%	Limited
Home Drive Security	Final Report	100%	Limited
Backups	Final Report	100%	Reasonable
Parking Permit System	Final Report	100%	Limited
Corporate Resources - Scheme of Delegation	Complete	100%	Limited
Corporate Resources - Risk Management **	In Progress	75%	
Fixed Assets 2018-19	Final Report	100%	Limited
Risk Management Strategy & Process **	Merged	100%	
A52 Corporate - Follow Up	Final Report	100%	Reasonable
Communities & Place			
New Swimming Pool - Contract Management	Final Report	100%	Substantial
s38 Agreements/s278 works - 1980 Highways Act	Final Report	100%	N/A

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Bus Station – Processes & Procedures	Final Report	100%	Limited
A52 Scheme - Follow Up	Final Report	100%	Reasonable
Planning Application Process	Final Report	100%	Substantial
Home to School Transport	Final Report	100%	Limited
Market Hall Refurbishment	Final Report	100%	No
Our City Our River - Contract Management	Final Report	100%	Reasonable
Communities & Place - Scheme of Delegation	Complete	100%	Limited
Communities & Place - Risk Management **	Merged	100%	
Derby Arena Car Parks *	Draft Report	95%	
Schools			
Schools SFVS Self Assessment 2019-20	Final Report	100%	Substantial

* Audit reviews not finalised but findings used to inform opinion

** Audits being combined to achieve a corporate response

- Of the 51 completed assignments, 23 attracted either a 'Substantial' or 'Reasonable' assurance rating. There were 9 audit assignments that were given a 'Limited' assurance rating and one assignment received a "No" assurance rating. There were 18 "consultancy" or "non-assurance" type assignments that were not given an assurance rating due to the nature of the review, but I am able to use findings from the work to help form my overall opinion.

- A further six audits where fieldwork had been completed or they had been issued in draft were also used to feed into the overall opinion.

- From the completed assignments a total of 169 recommendations were made; 85 of these were considered to present a low risk; 76 were considered to present a moderate risk; with the remaining eight presenting a significant risk; no critical risk recommendations were made. Five of the significant risk recommendations have now been implemented.
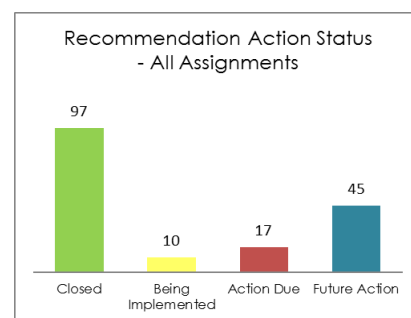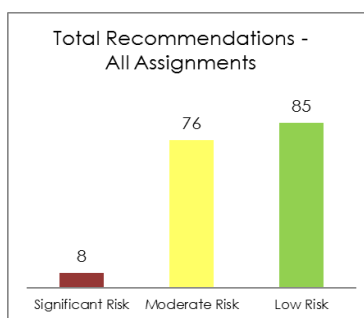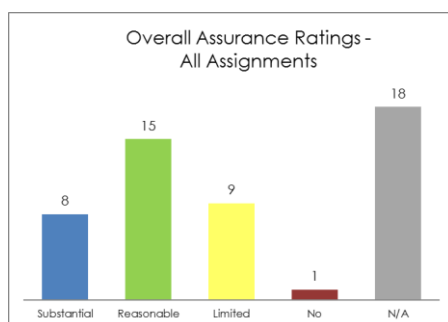

- **Key Financial System audits**

A key area of Internal Audit's assurance work comes from the review of the risks and controls associated with the Council's financial systems. One area we wanted to gain assurance on in 2020/21 was the degree to which financial systems had to be modified to take account of the changing working practices brought about by the pandemic. Enquiries were made with responsible officers as to whether or not systems /processes had been amended as part of the audit review on Financial Reporting. Our conclusion from the feedback was that the Council had been adopting electronic ways of working even before the Covid-19 pandemic and therefore there had been limited need to adapt and change existing controls /process in most of the financial systems. We did identify a couple

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of areas where controls had been adapted, or some processes subjected to change, but there were no major weaknesses identified.

We were unable to secure agreement to specific recommendations made in the Fixed Assets audit (limited assurance) from a previous year on the identification, recording and accounting for impairment and changes to the classification of assets. This was exacerbated by the pandemic, with the responsible officer being seconded to help the Council deliver its key services. The situation was also monitored by the Audit and Accounts Committee who called in the responsible officer to provide updates and assurance to the Committee that the matter would be closed off (November 2020). We received confirmation in March 2021 that the recommended actions were agreed and had been implemented. However, we have since received feedback that the problems still persisted at the time of the 2020/21year end closedown process.

There were no significant risks identified within the audits undertaken. The majority of recommendations (73.3%) relating to key financial systems have been implemented.
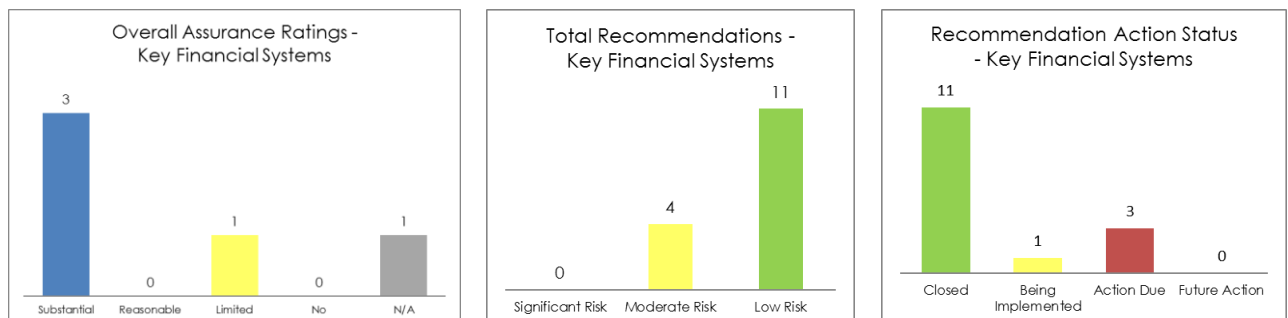
- **System/Risk audits**

The auditor's prime role is to review the internal control systems developed by management to mitigate operational risks and report upon the adequacy of those controls. In 2020/21, the majority of the system/risk audit reviews were classified as either "substantial assurance" or "reasonable assurance". Three system/risk audit reviews issued in 2020/21 were given "limited assurance" ratings, they were:
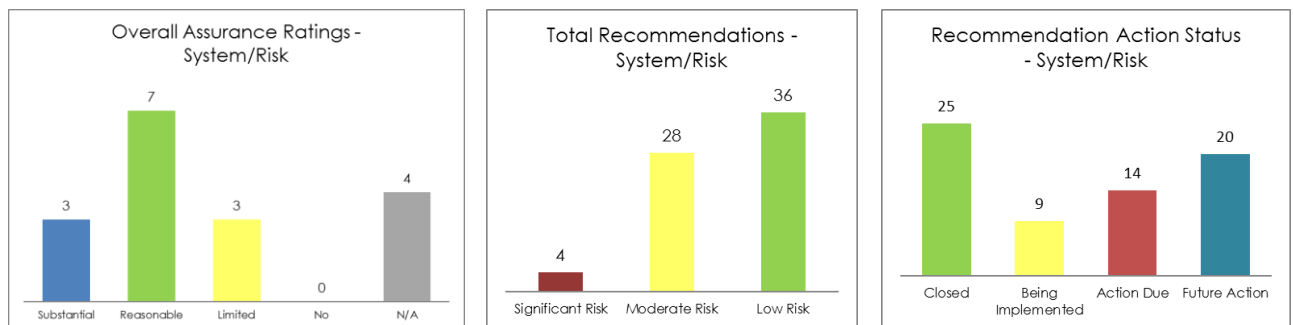
- Special Educational Needs - Action Plan – six moderate risk recommendations made, four low risk recommendations made.
- Bus Station – Processes & Procedures – two significant risk recommendations made, two moderate risk recommendations made, two low risk recommendations made. The two significant risks concerned:
  - o the toilet turnstiles did not record either the cash inserted or the number of users, making a reconciliation of the cash counted to amount that should have been collected impossible to perform.
  - o the control process designed around the daily cashing up and paying in process was poorly conceived and that key control processes were not being performed in an appropriate manner.
- Home to School Transport - one significant risk recommendation made, five moderate risk recommendations made, one low risk recommendation made. The significant risk concerned:

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      o   no structured processes to ensure all drivers and passenger assistants were subject to ongoing monitoring and review.

In total, we made four significant risk recommendations in our systems/risk audits. As well as the three significant risk recommendations identified above, there was also a significant risk recommendation made during the Neighbourhood Boards audit (Reasonable assurance) that there was no clear record of the decisions made by Members outside the normal Neighbourhood Board/Ward Committee meeting cycle.

Only 36.8% of recommendations relating to systems/risk audits have been implemented.

Overall Assurance Ratings - System/Risk: Substantial 3, Reasonable 7, Limited 3, No 0, N/A 4

Total Recommendations - System/Risk: Significant Risk 4, Moderate Risk 28, Low Risk 36

Recommendation Action Status - System/Risk: Closed 25, Being Implemented 9, Action Due 14, Future Action 20

- **Governance/Ethics audits**

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled. Internal Audit reviews specific areas of the governance framework each year. The audit around the roles of the Senior Information Risk Officer (SIRO) & the Caldicott Guardian and the review of the Council's assessment against the NHS IT Toolkit, were both rated as reasonable assurance.

The audits of the directorate Schemes of Delegation were undertaken in 2019/20, although two were not reported on until 2020/21 (both were limited assurance). However, I had concerns that there was a lack of a corporate approach and so for this reason, we re-opened the audit work in 2020/21 to address the lack of corporate oversight. This resulted in a memo to the Chief Executive which included two new recommended actions to address the corporate oversight issue and re-stated the recommended actions that were originally made to each Directorate. The outcome was that the Strategic Director of Corporate Resources asked me to form a working group to look at how the Council can improve Schemes of Delegation, their links with the Constitution and the Council's Governance Framework and how risks from a lack of up to date Schemes of Delegation can be mitigated.

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Note: The original recommendations regarding the Schemes of Delegation are not reflected in these tables.

- **IT Audits**

One key area of work each year is our IT audit coverage. This work is important as it provides assurance around the Council's mitigating actions to reduce the threat of cyber-attacks. It also provides assurance on the mitigation of risk within IT developments /projects.

We were able to provide "reasonable assurance" on three IT audit reviews issued in 2020/21, another three were given "limited assurance" ratings. There were no significant risk recommendations made, however, we did have to issue "audit memos" during the course of our audit work, where we had identified security issues that required immediate attention.

The only recommendations that have not been implemented during the year are those classified as "future action" i.e. the agreed date for implementation has yet to be reached.
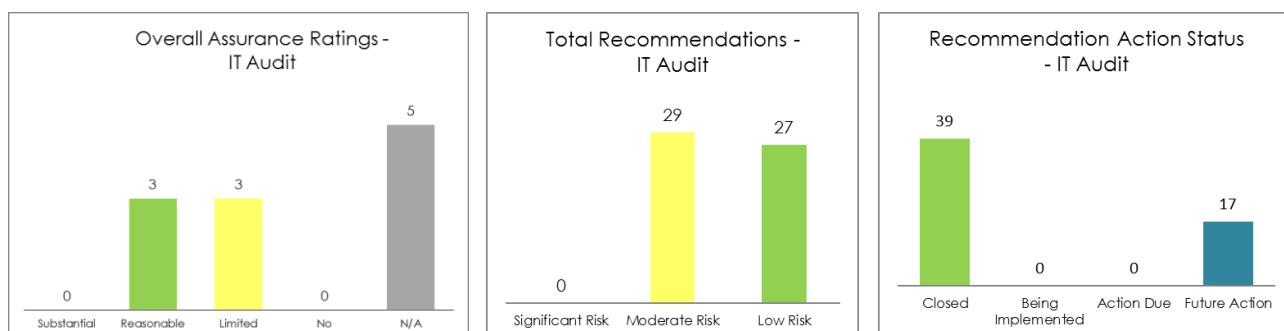
- **Anti-Fraud or investigation type work**

Internal Audit has an important role to play in ensuring that management has effective systems in place to manage the risk of fraud within the Council. Internal audit's role includes promoting counter-fraud best practice, testing and monitoring systems through probity work and advising on change where it is needed. Internal Audit also may be involved in the investigation of suspected internal fraud, theft or major irregularity (where there is some form of alleged financial irregularity, which may have resulted in financial loss to the Council). Internal Audit works closely with the Council's Corporate Fraud team.

During 2020/21 the key piece of work that Internal Audit supported the Council on was the systems introduced to pay the numerous business support grants administered on behalf of Central Government, which were paid to support local

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businesses during the Covid-19 pandemic. Internal Audit was involved from the beginning, providing advice and assurance at each stage of the process. The designs of the various systems for application and payment of the grants were well thought out and properly planned. The potential fraud risks were assessed and mitigating actions put in place. Internal Audit worked closely with the Corporate Fraud team on the pre-payment checks, utilising our data matching skills across all the grant payment systems.

Internal Audit's involvement in specific cases of alleged fraud, theft and financial irregularities has highlighted specific concerns around weaknesses in controls and failure of management to properly implement previous internal audit recommendations.

Our involvement in investigations has also provided an insight into the Council's disciplinary processes and has identified areas of interest to me that I will be discussing with Senior Management.
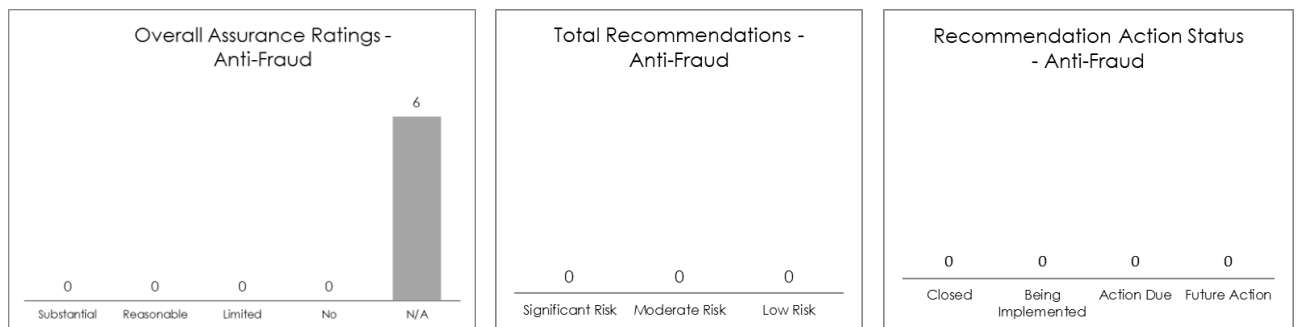
- **Client Support type work**

On an ad-hoc basis, Internal Audit is called upon to provide risk and control advice on issues throughout the Council where risk and control systems and processes are embryonic or not yet mature. In 2020/21 we classified the following audit work under this heading:

- Project Delivery - Fact Finding audit work to identify key areas for 2021/22 audit assurance work.
- Procurement Cards – support on the system being set up following the transfer of responsibility for administration between teams.
- Test & Trace Support Payments – consultation /advice on the system being introduced.
- Consultancy around the systems being planned for the Community Hub being set up in response to Covid 19.

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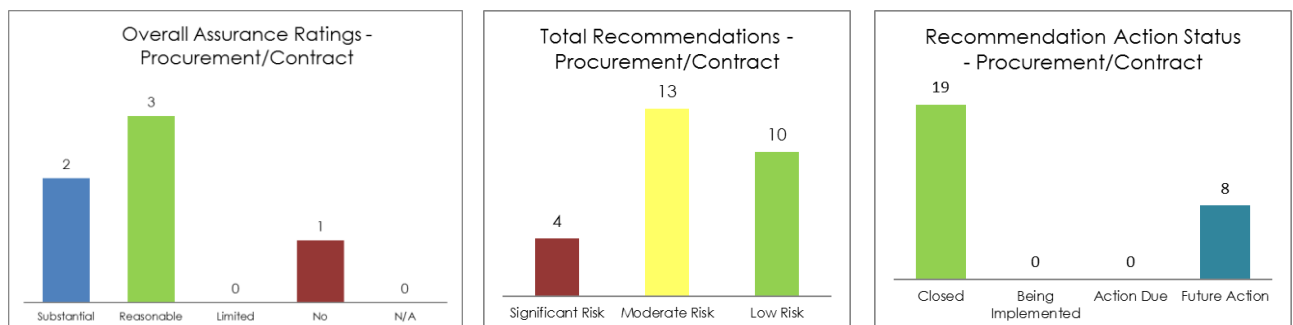
- **Procurement/Contract audits**

As a result of the investigation into the A52 Project in 2018/19, Internal Audit has focused on providing assurance around the governance of key capital projects. In the main we have found that there has been an improvement in the governance process being used within the major capital projects, although this has not been consistently adopted between projects. There are fundamentals around project management that the Council needs to develop. Internal Audit is adopting a collaborative approach in 2021/22 to add value in this area.

Our review of the Market Hall Refurbishment project resulted in it been classified as "No assurance". The audit report contained three significant risk recommendations, six moderate risk recommendations and four low risk recommendations. The three significant risk areas were:

- The Project Team discussed and decided, at a key turning point for the programme, on the way forward without reference to the Strategic Director or Members and without proper delegated authority having been afforded.
- No delegated approvals and/or appropriate governance arrangements had been put in place and formally authorised by Members, in respect to project progression and/or financial matters concerning the Market Hall refurbishment project.
- The Council had not obtained legal advice in respect to the contract entered into with the Principal Contractor and evidence suggests that the best contractual arrangements may not have been entered into.

All the recommendations made in the report have now been implemented.

The other significant risk was in respect to the follow up on the A52 Corporate report. The audit raised the concern of the "single point of failure" with the Programme Management Office (PMO) only being resourced by a single Project Manager, who then left the PMO. Actions have now been taken to mitigate this risk.

Overall Assurance Ratings - Procurement/Contract

Total Recommendations - Procurement/Contract

Recommendation Action Status - Procurement/Contract

- **Schools – SFVS**

Each year Internal Audit carries out work to provide the Chief Financial Officer with assurance around the Schools Financial Value Standard (SFVS) to enable him to certify the annual return to the Department for Education. We visit a proportion of LEA schools each year to perform an independent assessment of their performance against the Standard. In 2020-21 we undertook detailed reviews at 12 of the 38 schools. The remaining schools provide Internal Audit with a self-assessment return, the results of which are incorporated into an SFVS Annual

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Report. For the 12 schools that Internal Audit reviewed, two attracted a Substantial overall assurance rating, nine attracted a Reasonable rating and one attracted a Limited rating. The SFVS Annual Report for 2019-20 was completed as a brought forward job, with a Reasonable overall assurance rating. The SFVS Annual Report for 2020-21 was still being completed at the end of the financial year and has been carried forward into 2021-22. It is expected that a reasonable assurance rating will be given again.

This opinion is provided with the following caveats:

- The opinion does not imply that Internal Audit has reviewed all risks, controls and governance arrangements relating to the Council. The opinion is substantially derived from the conduct of risk-based audit work and as such, it is only one component that is taken into account when producing the Council's Annual Governance Statement.

- No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.

- Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each individual audit report are to be realised.

Overall, management is making sufficient progress with the implementation of required actions to address the risks and weaknesses that Internal Audit has identified during 2020/21. However, 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. Such instance as raised with Senior Management as part of our quarterly review of the progress being made on the implementation of recommendations. The progress reports to Audit and Accounts Committee have identified areas of concern around lack of progress and where appropriate, the Committee has invited the responsible manager to attend Committee to provide an update and explanation for the lack of progress.

Also, there are also still isolated instances of non-response to draft internal audit reports. Again, these are raised with the Committee and the responsible manager is invited to attend Committee to explain their non-compliance with process. The escalation process will be more tightly enforced from 2021/22.
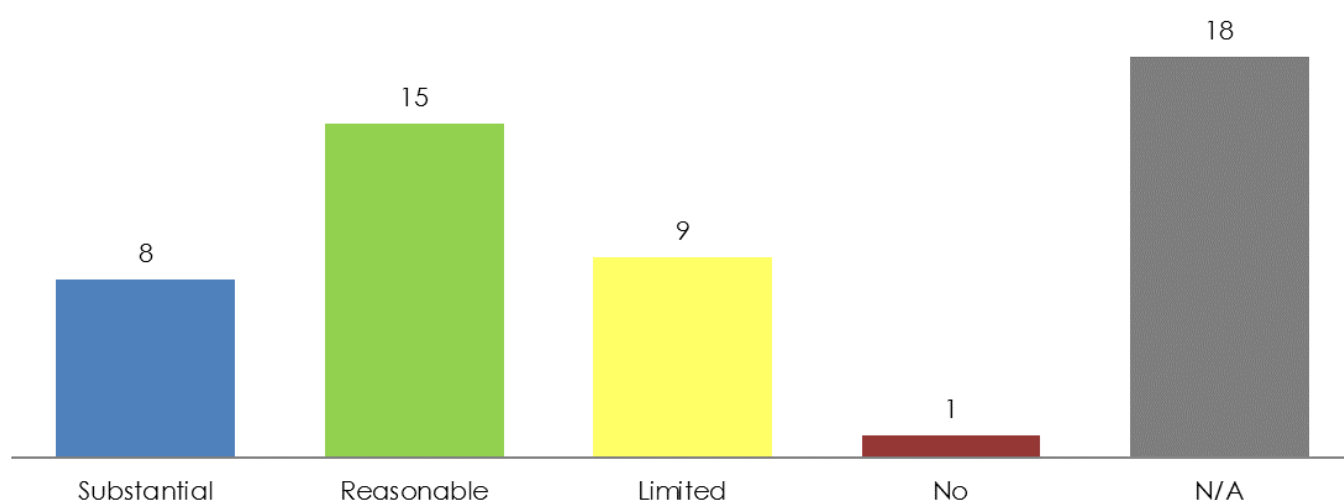
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Audit Coverage

Assurances Provided

The following table seeks to summarise the extent of audit coverage provided to Derby City Council during 2020-21 and the assurance ratings associated with each audit assignment.

Summary of Audit Plan 2020-21 Results (incl. Jobs B/Fwd)	Type of Review								Totals
	Key Financial System	System/ Risk	Governance /Ethics	IT Audit	Anti-Fraud	Client Support Work	Procurement /Contract	Schools	
Not Yet Complete	2	7	3	1	2	2		1	**18**
Substantial	3	3					2	3	**11**
Reasonable		7	2	3			3	9	**24**
Limited	1	3	2	3				1	**10**
No							1		**1**
N/A	1	4		5	6	2			**18**
	7	24	7	12	8	4	6	14	**82**

Assurances Provided 2020-21

* **Chart excludes those jobs not yet sufficiently complete and individual School SFVS review results**

Assurance Ratings Explained

Substantial - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

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No - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

N/A – The type of work undertaken did not allow us to reach a conclusion on the adequacy of the overall level of internal control.

These assurance ratings are determined using our bespoke modelling technique which takes into account the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks.

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Audit Plan Assignments 2020-21

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Grant Certification Work 2020/21	N/A					n/a
Budget Management						n/a
Financial Reporting - Impact of Covid19*						n/a
Main Accounting 2019-20	Substantial				1	100%
Taxation	Substantial				4	75%
Creditors - Follow Up	Substantial				2	50%
Fixed Assets 2018/19	Limited			4	4	75%
Pre-Paid Cards	Reasonable				7	0%
Schools Admissions	Substantial				2	100%
Billing for Home Care	Reasonable			2	4	67%
Adult Learning Service - Cultural Change	Reasonable			3		67%
Special Educational Needs - Action Plan	Limited			6	4	20%
Translation Services - Follow Up	Reasonable			2	1	100%
Payment Systems - In Light of Covid 19						n/a
People Management	Reasonable			4	4	25%
Insurance 2020-21						n/a
SR5 - Non-complaint condition of council properties*						n/a
SR8 - Poor Data and Records Management*						n/a
HR Strategy - Project	N/A					n/a
Attendance Management - First Care	Substantial				3	0%
CMIS - Information Security	N/A				1	100%
Corporate Resources - Risk Management						n/a
Sinfin Waste Plant						n/a
Neighbourhood Boards	Reasonable		1	2	2	0%
Section 106 Agreements 2020-21						n/a
RAM Energy	N/A					n/a
Strategic Housing - Disabled Facilities Grants	Reasonable			2	3	0%
s38 Agreements/s278 works - 1980 Highways Act	N/A				1	100%
Bus Station - Processes & Procedures	Limited		2	2	2	0%
Planning Application Process	Substantial				1	100%
Home to School Transport	Limited		1	5	1	100%
NHS - IT Toolkit	Reasonable				1	100%
Data Quality & Performance Management						n/a
Democratic Services - Impact of Covid 19*						n/a
SIRO/Caldicott Guardian	Reasonable			1	1	100%
Corporate Resources - Scheme of Delegation	Limited					n/a
Business Continuity - In Light of Covid 19*						n/a
Communities & Place - Scheme of Delegation	Limited					n/a
Microsoft 365 Security	Reasonable			3	4	14%
File Server Security Risk	N/A			2	1	100%
Boundary Defence						n/a
Controlled Use of Administrative Privileges	Reasonable			4	5	44%
Back Up Files - Follow Up	N/A				1	100%
Folder Access Control Settings	N/A				1	100%
Domain Password Security	N/A				4	0%
Revenues Data Security Risk	N/A				1	0%
Legal Case Management System Security - Follow Up	Limited			3	3	100%

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Home Drive Security	Limited			4	2	100%
Back Ups	Reasonable			2	6	88%
Parking Permit System	Limited			4	6	100%
Independent Review for Chief Executive	N/A					n/a
School Financial Irregularities	N/A					n/a
School Whistleblowing - Expenses*						n/a
Covid19 Business Support Grants	N/A					n/a
Covid 19 Discretionary Support Grants	N/A					n/a
Leisure & Business Development	N/A					n/a
Fact Finding Investigation - Grant Payment	N/A					n/a
Derby Arena Car Parks*						n/a
Asbestos Removal Contract Management	Substantial				4	25%
A52 Corporate - Follow Up	Reasonable		1			100%
New Swimming Pool - Contract Management	Substantial			1	1	100%
A52 Scheme - Follow Up	Reasonable					n/a
Market Hall Refurbishment	No		3	6	4	100%
Our City Our River - Contract Management	Reasonable			6	1	29%
Project Delivery - Fact Finding	N/A					n/a
Procurement Cards 2020/21						n/a
Test & Trace Support Payments	N/A					n/a
Covid - Community Hub						n/a
Schools SFVS Self-Assessments 2020-21						n/a
			8	76	85	57%

* Fieldwork complete/Draft Report but Assurance ratings yet to be finalised

Internal Controls Examined

For those audits finalised during 2020-21, we established the following information about the controls examined:

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Derby City

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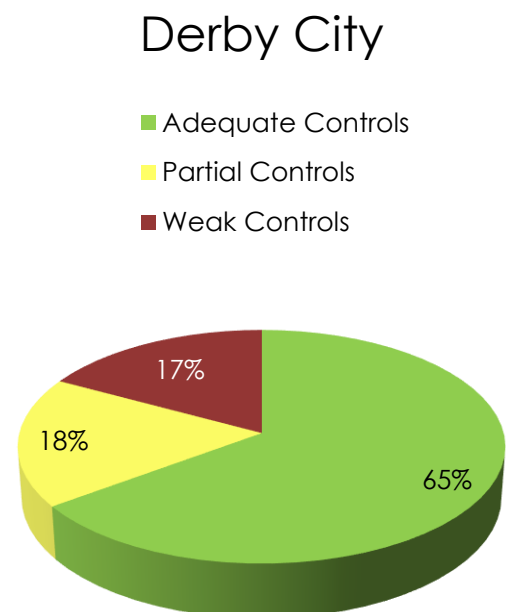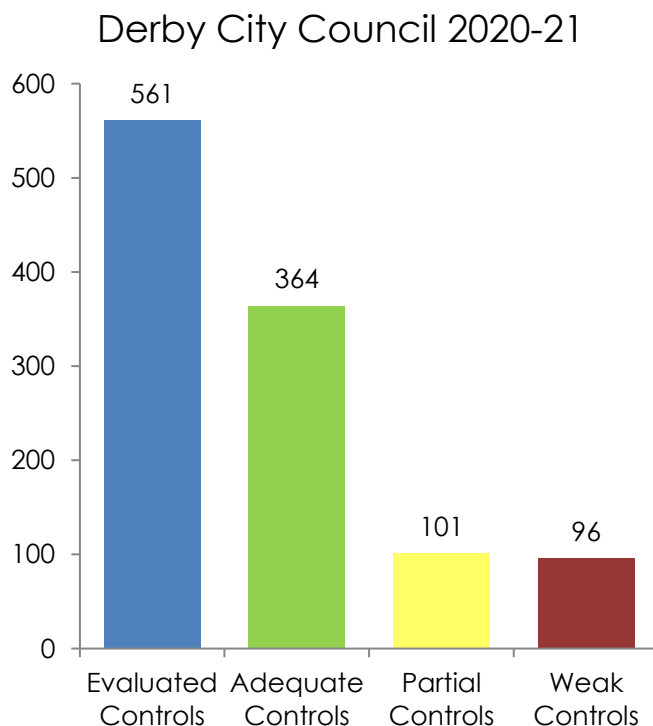
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Recommendations Made

The control weaknesses identified above resulted in 169 recommendations which suggested actions for control improvements. The following table and charts show where the recommendations came from, how the recommendations were risk rated and the current status of all recommendations made in 2020-21:

Audit Assignments Completed in Period	Type of Review	Recommendations Status			
		Total Closed	Action Due	Being Implemented	Future Action
Grant Certification Work 2020/21	Key Financial System				
Budget Management	Key Financial System				
Financial Reporting - Impact of Covid19	Key Financial System				
Main Accounting 2019-20	Key Financial System	1			
Taxation	Key Financial System	3	1		
Creditors - Follow Up	Key Financial System	1		1	
Fixed Assets 2018/19	Key Financial System	6	2		
Pre-Paid Cards	System/Risk				7
Schools Admissions	System/Risk	2			
Billing for Home Care	System/Risk	4		2	
Adult Learning Service - Cultural Change	System/Risk	2	1		
Special Educational Needs - Action Plan	System/Risk	2	7	1	
Translation Services - Follow Up	System/Risk	3			
Payment Systems - In Light of Covid 19	System/Risk				
People Management	System/Risk	2	3		3
Insurance 2020-21	System/Risk				
SR5 - Non-complaint condition of council properties	System/Risk				
SR8 - Poor Data and Records Management	System/Risk				
HR Strategy - Project	System/Risk				
Attendance Management - First Care	System/Risk				3
CMIS - Information Security	System/Risk	1			
Corporate Resources - Risk Management	System/Risk				
Sinfin Waste Plant	System/Risk				
Neighbourhood Boards	System/Risk				5
Section 106 Agreements 2020-21	System/Risk				
RAM Energy	System/Risk				
Strategic Housing - Disabled Facilities Grants	System/Risk		3		2
s38 Agreements/s278 works - 1980 Highways Act	System/Risk	1			
Bus Station - Processes & Procedures	System/Risk			6	
Planning Application Process	System/Risk	1			
Home to School Transport	System/Risk	7			
NHS - IT Toolkit	Governance/Ethics	1			
Data Quality & Performance Management	Governance/Ethics				
Democratic Services - Impact of Covid 19	Governance/Ethics				
SIRO/Caldicott Guardian	Governance/Ethics	2			
Corporate Resources - Scheme of Delegation	Governance/Ethics				
Business Continuity - In Light of Covid 19	Governance/Ethics				
Communities & Place - Scheme of Delegation	Governance/Ethics				
Microsoft 365 Security	IT Audit	1			6
File Server Security Risk	IT Audit	3			
Boundary Defence	IT Audit				
Controlled Use of Administrative Privileges	IT Audit	4			5

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|					
Back Up Files - Follow Up	IT Audit	1			
Folder Access Control Settings	IT Audit	1			
Domain Password Security	IT Audit				4
Revenues Data Security Risk	IT Audit				1
Legal Case Management System Security - Follow Up	IT Audit	6			
Home Drive Security	IT Audit	6			
Back Ups	IT Audit	7			1
Parking Permit System	IT Audit	10			
Independent Review for Chief Executive	Anti-Fraud				
School Financial Irregularities	Anti-Fraud				
School Whistleblowing - Expenses	Anti-Fraud				
Covid19 Business Support Grants	Anti-Fraud				
Covid 19 Discretionary Support Grants	Anti-Fraud				
Leisure & Business Development	Anti-Fraud				
Fact Finding Investigation - Grant Payment	Anti-Fraud				
Derby Arena Car Parks	Anti-Fraud				
Asbestos Removal Contract Management	Procurement/Contract	1			3
A52 Corporate - Follow Up	Procurement/Contract	1			
New Swimming Pool Complex - Contract Management	Procurement/Contract	2			
A52 Scheme - Follow Up	Procurement/Contract				
Market Hall Refurbishment	Procurement/Contract	13			
Our City Our River - Contract Management	Procurement/Contract	2			5
Project Delivery - Fact Finding	Client Support Work				
Procurement Cards 2020/21	Client Support Work				
Test & Trace Support Payments	Client Support Work				
Covid - Community Hub	Client Support Work				
Schools SFVS Self-Assessments 2020-21	Schools				
TOTALS		**97**	**17**	**10**	**45**

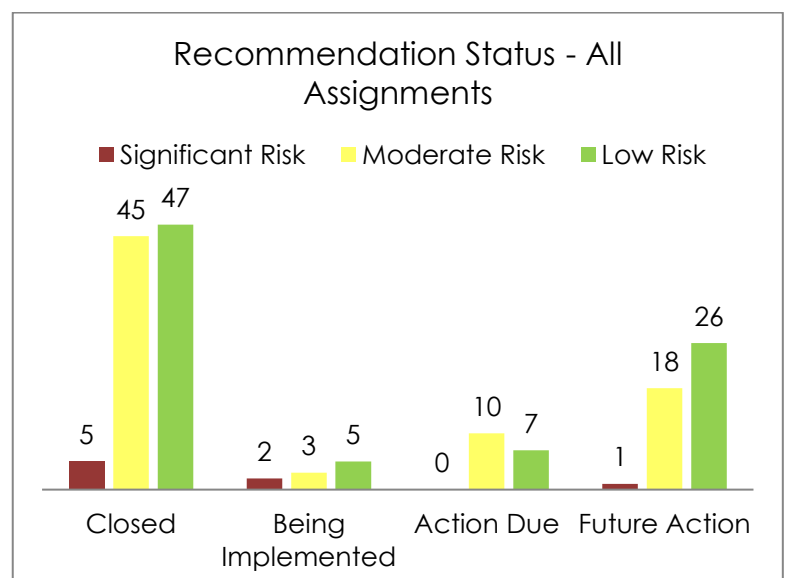# Derby City Council – Internal Audit Annual Report 2020-21

Recommendations Summary

These 169 recommendations have resulted from the 51 audit assigments finalised either during 2020-21 or finalised in the time following the year-end. Approximately 50% of all recommendations made were considered to present a low risk, 45% a moderate risk and 5% a significant risk.

Recommendations Made 2020-21

Significant Risk	Moderate Risk	Low Risk
8	76	85
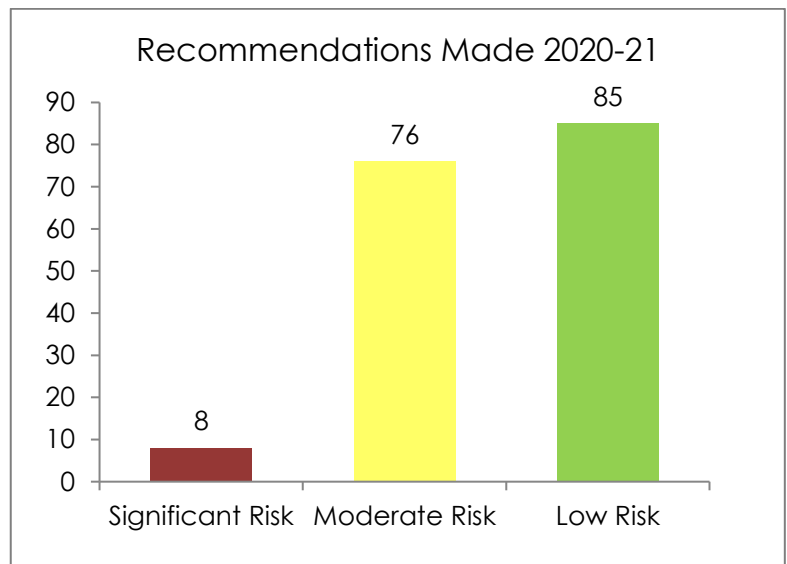
Of the 169 recommendations made, 57% have been closed, 6% have passed their original action date and a revised target has been set, 10% have passed their original action date but we have not yet received information regarding the status of management's action. The remaining 27% have an agreed original action date set in the future.

Recommendation Status - All Assignments

Closed	Being Implemented	Action Due	Future Action
97	10	17	45
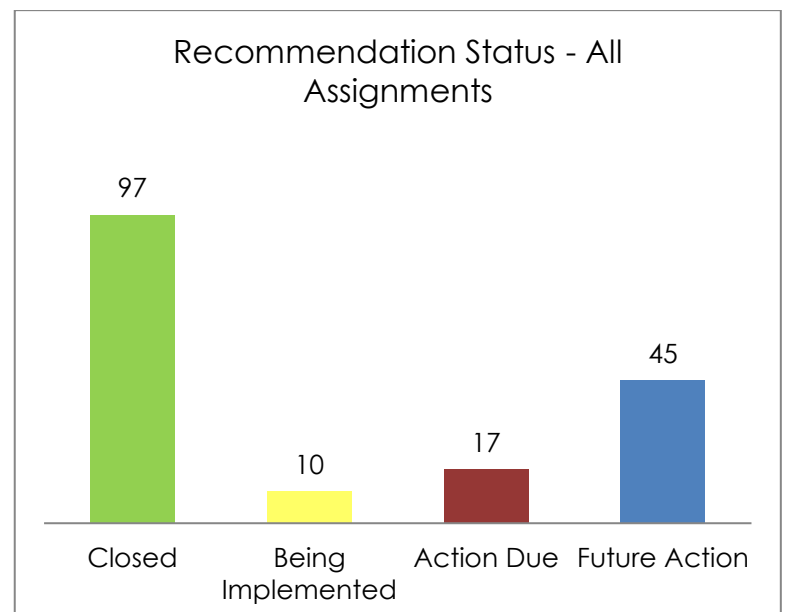
It is pleasing to note that 5 of the significant risk recommendations raised have been addressed to our satisfaction, as have 45 of the moderate risk recommendations. We will continue to monitor all recommendations not yet addressed and will bring those significant and moderate risk recommendations that remain outstanding to the attention of the Audit & Governance Committee throughout the coming year.

Recommendation Status - All Assignments

	Closed	Being Implemented	Action Due	Future Action
Significant Risk	5	2	0	1
Moderate Risk	45	3	10	18
Low Risk	47	5	7	26

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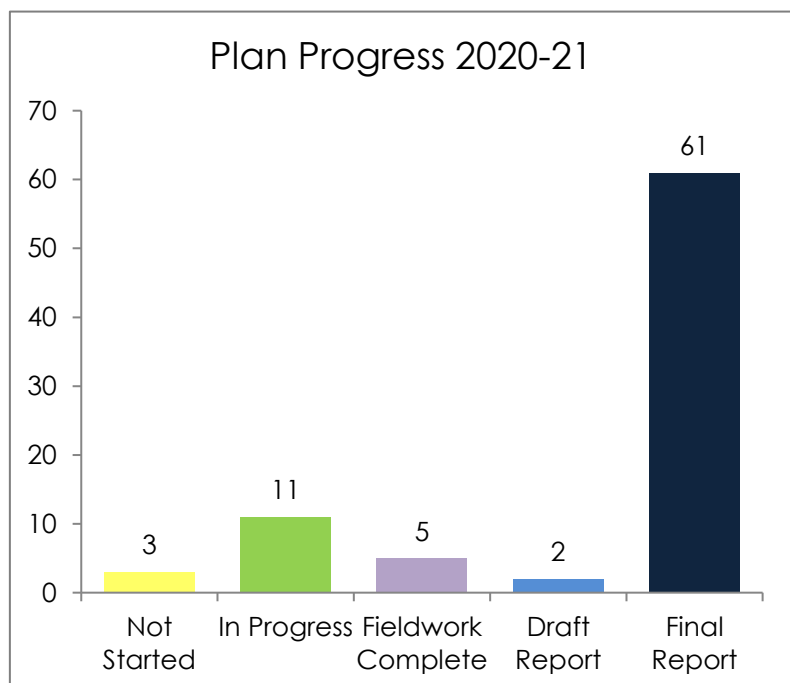# Derby City Council – Internal Audit Annual Report 2020-21

Performance Measures

Of the 36 customer satisfaction surveys sent, only 41% have been returned. Surveys contain 11 questions regarding the audit service provided and asked managers to score each on a scale of 1-5 (1=Very Poor, 2=Poor, 3=Fair, 4=Good, 5=Excellent). From the 15 customer satisfaction returns received, the overall average score out of 55 was 49.4.

Customer Satisfaction Returns 2020-21

Category	Value
Excellent	11
Good	3
Fair	1
Poor	0
Very Poor	0

By the end of the 2020-21 financial year we estimated that we had completed 84.6% of the revised Audit Plan against a target of 90%. Our progress with certain audit assignments has been impacted by the Covid-19 situation. These audits have been deferred to 2021/22 and were replaced in the 2020/21 plan. All changes to the plan were reported to the Audit and Accounts Committee.

Plan Progress 2020-21

Category	Value
Not Started	3
In Progress	11
Fieldwork Complete	5
Draft Report	2
Final Report	61

QAIP – Improvement Plan

ACTIONS
1. We could seek feedback from Audit Committees & Senior Management on whether the Audit Plan focuses on the things that matter to the organisation and whether our opinion and recommendations are valued and help the organisation or we could seek a formal endorsement from Audit Committee and Client Lead Officer of the Audit Plan and our Opinion when reporting to Committee.
2. We should continue to heighten our profile by building on the relationship management already established with each partner organisation. i.e. Regular meetings with Senior Management combined with a regular on-site presence. Note under the current circumstances (Covid pandemic) this needs to be through regular contact via virtual meetings.
3. We should map competency levels of staff over the various audit disciplines (e.g. contract, IT, probity, investigations etc.) that we can link to audit engagements to demonstrate that the staff assigned are appropriate.
4. We should continue to promote a culture of continuous improvement which considers the needs of individuals by: • staff completing the AMS in respect of any training received, • undertaking GPCs in accordance with the hosts requirements and • producing a Training & Development Plan.
5. Our opinion statements should explicitly state whether there are any perceived conflicts of interest with any other assurance providers which the CAE is relying upon when forming an opinion.
6. We should ask staff to complete a Personal Development Plan and then produce a Training & Development Plan for the Team.
7. We should aim to increase our knowledge around the use of data analytics and other CAATs and identify the benefits it could bring to the audit processes.
8. To ensure that audit engagements are supported by appropriate tools, we need to develop a strategy for the use of data analytics.
9. Complete this self–assessment annually and produce a revised QAIP and Action Plan for reporting to all necessary parties.
10. To demonstrate stakeholder engagement with the process, we should ensure that the QAIP Action Plan is a standard agenda item on both the CMAP Operational Group and at Audit Section meetings.
11. To demonstrate each work programme has been appropriately approved, we should continue to develop the controls/risk/tests selection from a searchable database in the AMS (which will automatically generate the control evaluation) which incorporates attributes for each control (such as risk type, control type) so we can better demonstrate our coverage and the scrutiny and approval of that coverage by audit management. We should continue to gather control/risk/test data from existing audits ready for import into the database.
12. CMAP needs to explore potential external assessors that can deliver the appropriate level of validation required and that understand the partnership ethos/approach.

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13. We should continue to develop the process for incorporating other assurance information into our overall risk assessment process and our overall opinion and how the other assurance provider information we gather can be used to demonstrate the overall Assurance 'map' for each organisation.

14. We should ensure that our Audit Manual is complete, up-to-date, readily available and used by all audit staff.

15. To support the improvement of the organisation's governance framework, we should undertake consultancy work to facilitate the self-assessment of the effectiveness of the Audit Committee at all partner organisations.

16. We should consider how we could systematically evaluate the potential for the occurrence of fraud at each partner organisation and how each organisation manages fraud risk.

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IIA Core Principles Action Plan

Principle 1. Demonstrates integrity

Standards series: 1000 – Purpose, Authority, and Responsibility; 1300 – Quality Assurance and Improvement Programme; 2000 – Managing the Internal Audit Activity

Corrective action plan

To demonstrate continuous improvement, we could:

- *include a section on ethics (with a scenario) in our CMAP staff induction process.*
- *Add "and integrity" to our CSS Q5.*
- *Include ethics on the agenda for team meetings.*

Principle 2. Demonstrates competence and due professional care

Standards series: 1200 – Proficiency and Due Professional Care; 2000 – Managing the Internal Audit Activity; 2200 – Engagement Planning; 2300 – Performing the Engagement; 2600 – Communicating the Acceptance of Risks

Corrective action plan

To demonstrate continuous improvement, we should complete the actions 3,4, & 6 included in our QAIP Action Plan, which all relate to staff competencies and training and development.

Need to better analyse our training hours across the team in order to demonstrate CPE/training skills attained.

Need to further develop the Auditor Competencies analysis to demonstrate the matching of assignments to skills.

Need to develop the variable enquiry page in the Windows 10 AMS for the recommendation reports already developed for South Derbyshire.

Principle 3. Is objective and free from undue influence (independent)

Standards series: 1000 – Purpose, Authority, and Responsibility; 1100 – Independence and Objectivity; 2000 – Managing the Internal Audit Activity

Corrective action plan

The different responsibilities of the Host authority and the Operational Board towards the CAEs regarding their appointment / removal and appraisal could be better defined.

We should debate the principle of private sessions between Audit Committees and CAEs at the Operational Board.

Principle 4. Aligns with the strategies, objectives, and risks of the organisation

Standards series: 2000 – Managing the Internal Audit Activity; 2200 – Engagement Planning

Corrective action plan

We should enquire how other audit partnerships demonstrate how they conform with these principles/ standards.

Principle 5. Is appropriately positioned and adequately resourced

Standards series: 1000 – Purpose, Authority, and Responsibility; 1100 – Independence and Objectivity; 1200 – Proficiency and Due Professional Care; 2000 – Managing the Internal Audit Activity

Corrective action plan

We should consider the benefits of measuring the % plan available for management requests.

Principle 6. Demonstrates quality and continuous improvement

Standards series: 1300 – Quality Assurance and Improvement Programme; 2000 - Managing the Internal Audit Activity

Corrective action plan

We could formally compare annual self-assessments to highlight the actions taken and the overall improvements made.

Progress against the QAIP Action Plan should be monitored and periodically reported to the Operational Board. Supporting evidence should be retained.

We should analyse and report on the balanced scorecards for 2019-20 & 2020-21.

Principle 7. Communicates effectively

Standards series: 1300 – Quality Assurance and Improvement Programme; 2000 – Managing the Internal Audit Activity; 2200 – Engagement Planning; 2300 – Performing the Engagement; 2400 – Communicating Results; 2600 – Communicating the Acceptance of Risks

Corrective action plan

We should consider the benefits of producing promotional information on our work, potentially utilising more modern communication methods.

Principle 8. Provides risk-based assurance

Standards series: 2000 – Managing the Internal Audit Activity; 2100 – Nature of Work; 2200 – Engagement Planning; 2400 – Communicating Results; 2600 – Communicating the Acceptance of Risks

Corrective action plan

We should explore how we can utilise the Controls database to link audit results back to organisational risks.

Undertake further work to facilitate the improvement of each organisations risk management framework.

Continue to develop the Assurance Mapping information for organisations to adopt.

Principle 9. Is insightful, proactive, and future-focused

Standards series: 2000 – Managing the Internal Audit Activity; 2100 – Nature of Work

Corrective action plan

We should consider formally asking our various "Boards" whether they consider us to be insightful, proactive, and future-focused.

We should consider how we can increase the use of data analytics across a wider variety of audit engagements.

Our development of the Controls database should enable a greater analysis of the type of risks identified by our work.

We should consider adopting control maturity models to further explain to provide perspective on the adequacy and scalability of current controls.

We should consider recording emerging risks in the engagement risk assessment document.

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Principle 10. Promotes organisational improvement

Standards series: 1000 – Purpose, Authority, and Responsibility; 2000 – Managing the Internal Audit Activity; 2100 – Nature of Work; 2500 – Monitoring Progress; 2600 – Communicating the Acceptance of Risks

Corrective action plan

We should consider monitoring and reporting upon the % of recommendations implemented within the original agreed timescales, then those within 3 months, 6 months, 12 months, greater than 12 months.

We should consider how we could identify best practice information to share across different business units/partners.

We should consider whether we can identify cost savings from our work.

We should consider whether a measurement of consultancy work would be beneficial.

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