

Report of:	Head of Internal Audit, Veritau
Submitted to:	Corporate Affairs and Audit Committee, 30 July 2020
Subject:	Annual Report of the Head of Internal Audit

Summary

Proposed decision(s)
<p>That the committee:</p> <ul style="list-style-type: none"> notes the results of internal audit work undertaken notes the opinion of the Head of Internal Audit on the adequacy and effectiveness of the Council’s framework of governance, risk management and internal control notes the outcome of the Quality Assurance and Improvement Programme and the confirmation that the internal audit service conforms with the Public Sector Internal Audit Standards

Report for:	Key decision:	Confidential:
Information	No	No

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
<p>Agreement to note the audit findings or identify where additional assurance is required will help the Committee perform its role. Internal audit work contributes towards achieving the Council’s priorities by identifying any potential control issues which may obstruct that achievement.</p>	<p>Internal Audit assists management in delivering their priorities by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls in place to assure delivery, ensure value for money and achieve better outcomes for local people.</p>	<p>Internal Audit assists management in delivering their priorities by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls in place to assure delivery, ensure value for money and achieve better outcomes for local people.</p>

Ward(s) affected
None.

What is the purpose of this report?

1. To summarise the delivery of the agreed internal audit plan and other information required as set out in the Public Sector Internal Audit Standards (PSIAS).

Why does this report require a Member decision?

2. The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In respect of reporting, the relevant PSIAS standard (2450) states that the Chief Audit Executive (CAE)¹ should provide an annual report to the board². The report should include:
 - (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
 - (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
 - (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e., the control environment)
 - (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
 - (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
 - (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.
3. The Corporate Affairs and Audit Committee approved the internal audit plan of the previous internal audit provider, Tees Valley Audit & Assurance Services (TVAAS) for 2019/20 on 6th June 2019.
4. This report summarised the delivery of the agreed plan and the other information required for the annual report as set out at paragraph 2 above.

Report Background

5. A summary of the audit work completed and the reports issued in the year is attached as Annex 1 to this report.
6. Internal audit normally measures performance by the number of audit reports issued compared to the agreed plan. Following the transfer of internal audit services from TVAAS to Veritau on 1 January 2020 a revised agreement of planned work to be completed was agreed with officers in February 2020 and brought to this committee in March 2020. However, due to Covid-19 most audit work had to be

¹ The Head of Internal Audit

² The PSIAS refers to the board. This is taken to be the Corporate Affairs and Audit Committee.

suspended soon after. As a result, a number of audits that were planned for 2019/20 were not completed. These audits have been considered for inclusion in the 2020/21 internal audit plan.

7. The results of completed audit work have been reported to relevant officers during the course of the year. The outcomes of internal audit work have also been reported to this committee as part of TVAAS's regular progress reports along with the results of follow up work to ensure that actions have been completed and any underlying control weaknesses have been addressed. Actions that were agreed by TVAAS will continue to be followed up by Veritau until they are complete.
8. Based on the audit work completed, the overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating within the Council is that it provides **Reasonable Assurance**.
9. Although a reasonable assurance opinion can be given, there are weaknesses in the control environment which have been identified in relation to audits completed during the year. Actions to address these issues have been agreed with management and further details of the work carried out during 2019/20 is at Annex 1.
10. Whilst some of these weaknesses represent significant issues in relation to specific systems and service areas none of the weaknesses relate to the main financial systems and none are recommended for individual consideration as significant failings in the overall framework of governance, risk management and control, for inclusion in the 2019/20 Annual Governance Statement.
11. The opinion of reasonable assurance is qualified, for a number of reasons as set out below.
12. The majority of work completed during the year, on which the opinion is based, was carried out by the previous internal audit service, TVAAS. Veritau had no involvement in undertaking this work or the conclusions drawn.
13. The level of audit work completed during the year was much lower than expected. This was due to (i) lack of completion of work by TVAAS at the point Veritau took over internal audit services on 1 January 2020 (and requiring a reduced plan for the fourth quarter to be agreed); (ii) the impact of Covid-19 from March 2020 which resulted in work being unable to be progressed.
14. The internal audit work completed was undertaken before emergency measures were implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short term measures and the overall impact on the framework of governance, risk management and control.
15. The qualifications are a limitation on the scope of our opinion rather than a reflection of the Council's control environment. The qualification relating to Covid-19 is consistent with professional guidance from the Internal Audit Standards Advisory

Board (IASAB)³, and reflects the approach that most Heads of Internal Audit will be taking when providing an opinion during the current pandemic.

16. Veritau maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards, specifically the Public Sector Internal Audit Standards (PSIAS).
17. This Quality Assurance and Improvement Programme (QAIP) includes ongoing quality assurance arrangements and activities, annual self-assessment, external assessments at least once every five years, as well as an annual survey of senior management in each client organisation.
18. A detailed self-assessment to evaluate performance against the Standards is undertaken every year. This self-assessment has been carried out using the CIPFA checklist published in April 2019. The most recent external assessment of Veritau internal audit working practices was undertaken in November 2018. This concluded that Veritau internal audit activity generally conforms⁴ to the PSIAS.
19. The outcome of the QAIP demonstrates that the service continues to generally conform to the PSIAS, including the Code of Ethics and the Standards. Further details of the QAIP are given in Annex 2.

What decision(s) are being asked for?

20. That the committee:

- notes the results of internal audit work undertaken
- notes the opinion of the Head of Internal Audit on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control
- notes the outcome of the Quality Assurance and Improvement Programme and the confirmation that the internal audit service conforms with the Public Sector Internal Audit Standards

Why is this being recommended?

21. Internal audit professional standards require that internal audit prepare an annual report setting out a summary of work carried out during the year and other information as detailed at paragraph 2.

Other potential decisions and why these have not been recommended

22. This report is for information. There are no other options available.

Impact(s) of recommended decision(s)

³ The IASAB 'exists to promote high quality internal audit across the UK public sector'.

⁴ PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

Legal

23. There are no specific risks.

Financial

24. There are no specific risks.

Policy Framework

25. There are no specific risks.

Equality and Diversity

26. There are no specific risks.

Risk

27. The Council will fail to comply with best practice for internal audit if Members are not regularly updated on the progress of internal audit work.

Actions to be taken to implement the decision(s)

28. Any requests for additional assurance or clarification by Members of the committee will be responded to accordingly.

Appendices

Annex 1 – internal audit work completed 2019/20

Annex 2 – Quality Assurance and Improvement Programme

Background papers

No background papers were used in the preparation of this report.

Contact: Phil Jeffrey

Email: phil.jeffrey@veritau.co.uk