






# ANNUAL HEAD OF INTERNAL REPORT 2020/21

22 July 2021

APPENDIX 1



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## BACKGROUND

- 1 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the Council's audit charter. These require the Head of Internal Audit to bring an annual report to the Corporate Affairs and Audit Committee. The report must include an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control. The report should also include:
  - (a) any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
  - (b) any particular control weakness judged to be relevant to the preparation of the annual governance statement
  - (c) a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
  - (d) an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme, including a statement on conformance with the PSIAS.



## INTERNAL AUDIT WORK CARRIED OUT IN 2020/21

- 2 During the last year, the Covid pandemic has had a significant impact on the Council's working practices. In addition, much of the Council's resources have been directed towards responding to Covid related issues. This has also impacted upon the work of internal audit.
- 3 A summary of internal audit work undertaken during the year is included in appendix A, below. During the first part of the year, work progressed more slowly due to the impact of the pandemic on Council staff. However, from June 2020 onwards audit work largely returned to normal, although all work was undertaken remotely.
- 4 Audit work undertaken during the year concentrated on the main financial systems, particularly those not completed during 2019/20 due to the onset of the pandemic. Audit work also prioritised other corporate and cross-cutting audits as well as providing support where required to the Council's Covid response, for example in relation to business grants. Other key areas included reviewing areas relating to Children's Services following the adverse Ofsted inspection.
- 5 Appendix B, below, provides details of the key findings arising from internal audit assignments completed, that we have not previously reported to the committee. Appendix C provides an explanation of our assurance levels and priorities for management action.



## FOLLOW UP OF AGREED ACTIONS

- 6 All actions agreed with services as a result of internal audit work are followed up to ensure that underlying control weaknesses are addressed. A summary of the current position is included in appendix D.



## PROFESSIONAL STANDARDS

- 7 In order to comply with Public Sector Internal Audit Standards (PSIAS) the Head of Internal Audit is required to develop and maintain an ongoing quality assurance and improvement programme (QAIP). The objective of the QAIP is to ensure that working practices continue to conform to professional standards. The results of the QAIP are reported to the committee each year as part of the annual report. The QAIP consists of various elements, including:
- maintenance of a detailed audit procedures manual and standard operating practices
  - ongoing performance monitoring of internal audit activity
  - regular customer feedback
  - training plans and associated training and development activities
  - periodic self-assessments of internal audit working practices (to evaluate conformance to the standards)
- 8 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The most recent external assessment of Veritau internal audit working practices was undertaken in November 2018. This concluded that Veritau internal audit activity generally conforms to the PSIAS<sup>1</sup>.
- 9 The outcome of the recently completed self-assessment 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 appendix E.
- 10 The Internal Audit Charter sets out how internal audit at the Council will be provided in accordance with the PSIAS. The Charter is reviewed on an annual basis and any proposed changes are brought to the Corporate Affairs and Audit Committee. No changes are proposed at this time.



## OPINION OF THE HEAD OF INTERNAL AUDIT

- 11 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating at the Council is that it

<sup>1</sup> PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

provides **Reasonable Assurance**. No reliance was placed on the work of other assurance providers in reaching this opinion.

- 12 In giving this opinion, attention is drawn to the following significant control weakness which is considered relevant to the preparation of the 2020/21 Annual Governance Statement.
- 13 An audit of the CCTV schemes operated across the Council found that there is no central register available that identifies the location of all CCTV camera equipment across the Council. Therefore, the Council is unable to confirm that all CCTV schemes are compliant with the Surveillance Camera Code of Practice and the relevant legislation.
- 14 The audit report mentioned above is at the draft report stage. Actions will be agreed with the services involved and reported to a future meeting of the Corporate Affairs and Audit Committee.
- 15 The overall opinion given above is based on work that has been undertaken directly by internal audit, and on cumulative knowledge gained through our ongoing liaison and planning with officers. However, in giving the opinion, we would note that Covid-19 has significantly affected the Council over the last year, with a wide ranging impact on business operations and controls. While the work of internal audit is directed to the areas that are most at risk, or provide most value for the Council, it is not possible to conclude on the full extent of the impact of Covid-19 on the Council's operations.

Audit	Status	Assurance Level
Purchasing Cards	Final report issued	Reasonable Assurance
FoI and Direct Marketing	Final report issued	Reasonable Assurance
Debtors	Final report issued	Reasonable Assurance
Creditors	Final report issued	Substantial Assurance
Payroll	Final report issued	Substantial Assurance
Reablement Service	Final report issued	Reasonable Assurance
Improvement Plan Governance	Final report issued	Substantial Assurance
Data Quality (Children's Services)	Final report issued	Substantial Assurance
Schools Themed Audit - Budgeting	Final report issued	Reasonable Assurance
Inclusion Strategy	Final report issued	Reasonable Assurance
Anti-Social Behaviour Management	Final report issued	Reasonable Assurance
Use of CCTV	Draft report issued	
Governance Arrangements	Draft report issued	
Officer and Member Decision Making	Draft report issued	
Project Management – Boho X	Draft report issued	
Digitalisation	Draft report issued	
Pension Fund Administration	Draft report issued	
Schools Themed Audit – Pupil Premium	Draft report issued	
Main Accounting	Fieldwork in progress	
Cyber Security Awareness	Fieldwork in progress	
Council Tax & NNDR	Fieldwork in progress	
Council Tax Support & Benefits	Fieldwork in progress	

Social Care & Emergency Payments	Fieldwork in progress	
Pension Fund Investments	Fieldwork in progress	
<b>Other work</b>		
Internal audit work has been undertaken in a range of other areas during the period, including those listed below.		
<ul style="list-style-type: none"> <li>• Support and advice on Covid grants schemes</li> <li>• A review of the Council's income compensation scheme returns to central government for income losses as a result of Covid</li> <li>• A follow-up of actions relating to the Transporter Bridge audit report resulting in an update to the Corporate Affairs and Audit Committee</li> <li>• Ongoing certification throughout the year of the Council's Troubled Families (now Supporting Families) returns</li> <li>• A review into sub-contracting at the Middlesbrough Community Learning Service</li> <li>• A review of grant expenditure including those from the Tees Valley Combined Authority</li> <li>• A review of compliance with Homes England grant requirements</li> <li>• Certification of Trust Funds for which the Council is the Trustee</li> </ul>		



## APPENDIX B: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

System/area	Opinion	Area reviewed	Date issued	Comments / Issues identified	Management actions agreed
FoI and Direct Marketing	Reasonable Assurance	Compliance with direct marketing legislative requirements and processes to fulfil FoI Act requests.	June 2021	FoI Act requests are not always dealt with in a timely manner.	Procedures will be improved to ensure requests are dealt with appropriately. This will include the development of a management dashboard.
Purchasing Cards	Reasonable Assurance	Use of purchasing cards including management monitoring and retention of VAT receipts.	March 2021	Expenditure is not always being monitored or reviewed. VAT receipts are not always kept.	Monthly reports to be circulated to account managers and a newly appointed VAT Officer will address the receipting issue.
Income Compensation Scheme	n/a	A review of the claims covering April-November 2020 for lost income due to the Covid pandemic.	April 2021	The claims had been submitted accurately, in line with government guidance.	n/a
Creditors	Substantial Assurance	Policies and procedures, ordering, payments and performance management.	June 2021	No major issues were identified – systems were working well.	Out-of-date procedures and documentation to be updated.
Payroll	Substantial Assurance	Leavers/starters, overpayments, advances, adjustments and the interface with the general ledger.	April 2021	No major issues were identified – systems were working well.	Communications will be sent out to encourage leavers documentation to be provided promptly; sample checking of

System/area	Opinion	Area reviewed	Date issued	Comments / Issues identified	Management actions agreed
					advances calculations will be undertaken.
Data Quality (Children's Services)	Substantial Assurance	Performance data used by the Children's Partnership following the inadequate Ofsted inspection.	February 2021	Systems in place are effective and no major issues were identified.	The reporting of performance data to meetings will be standardised.
Schools Themed Audit – Covid Budgeting	Reasonable Assurance	The impact of Covid on budgeting at 4 maintained schools.	June 2021	Governor scrutiny and challenge could be better evidenced; records of IT equipment distributed to pupils had omissions or inconsistencies.	Actions agreed with individual schools where weaknesses were identified as well as with the Schools team in relation to IT records.

## APPENDIX C: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

### Audit opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Opinion	Assessment of internal control
Substantial assurance	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 assurance	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 assurance	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.
No assurance	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.

### Priorities for actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

## APPENDIX D: FOLLOW UP OF AGREED AUDIT ACTIONS

Where weaknesses in systems are found by internal audit, the auditors agree actions with the responsible manager to address the issues. Agreed actions include target dates and internal audit carry out follow up work to check that the issue has been resolved once these target dates are reached. Follow up work is carried out through a combination of questionnaires completed by responsible managers, risk assessment, and by further detailed review by the auditors where necessary. Where managers have not taken the action they agreed to, issues are escalated to more senior managers, and ultimately may be referred to the Corporate Affairs and Audit Committee.

### Actions followed up

A total of 53 actions have been agreed as a result of internal audit work completed in 2020/21. A summary of the priority of these actions is included below.

Actions agreed		Actions followed up by directorate					
Priority of actions*	Number of actions agreed	Environment & Community Services	Finance	Adult Social Care & Health	Legal & Governance	Children's Services	Regeneration & Culture
<b>1</b>	7	7	0	0	0	0	0
<b>2</b>	19	6	8	2	1	2	0
<b>3</b>	27	4	13	0	1	9	0
<b>Total</b>	<b>53</b>	<b>17</b>	<b>21</b>	<b>2</b>	<b>2</b>	<b>11</b>	<b>0</b>

Of the 53 agreed actions, 35 were due for implementation before the end of June 2021. Of these, 18 (51%) have been satisfactorily implemented. The remaining actions are either still being followed up with the relevant service area or a revised date has been agreed. This is done where the delay in addressing an issue will not lead to unacceptable exposure to risk and where, for example, the delays are unavoidable. No actions have currently been outstanding for longer than 6 months beyond the agreed implementation date. The remaining actions will be followed up when their implementation dates are due.

## APPENDIX E: INTERNAL AUDIT - QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

### 1.0 Background

#### Ongoing quality assurance arrangements

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). These arrangements include:

- the maintenance of a detailed audit procedures manual
- the requirement for all audit staff to conform to the Code of Ethics and Standards of Conduct Policy
- the requirement for all audit staff to complete annual declarations of interest
- detailed job descriptions and competency profiles for each internal audit post
- regular performance appraisals
- regular 1:2:1 meetings to monitor progress with audit engagements
- induction programmes, training plans and associated training activities
- attendance on relevant courses and access to e-learning material
- the maintenance of training records and training evaluation procedures
- membership of professional networks
- agreement of the objectives, scope and expected timescales for each audit engagement with the client before detailed work commences (audit specification)
- the results of all audit testing and other associated work documented using the company's automated working paper system (Sword Audit Manager)
- file review by senior auditors and audit managers and sign-off at each stage of the audit process
- the ongoing investment in tools to support the effective performance of internal audit work (for example data interrogation software)
- post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- performance against agreed quality targets monitored and reported to each client on a regular basis
- regular client liaison meetings to discuss progress, share information and evaluate performance

On an ongoing basis, samples of completed audit work are subject to internal peer review by a Quality Assurance group. The review process is designed to ensure audit work is completed consistently and to the required quality standards. The work of the Quality Assurance group is overseen by an Assistant Director. Any key learning points are shared with the relevant internal auditors and audit managers. The Head of Internal Audit will also be informed of any general areas requiring improvement. Appropriate mitigating action will be taken where required (for example, increased supervision of individual internal auditors or further training).

## Annual self-assessment

On an annual basis, the Head of Internal Audit will seek feedback from each client on the quality of the overall internal audit service. The Head of Internal Audit will also update the PSIAS self-assessment checklist and obtain evidence to demonstrate conformance with the Code of Ethics and the Standards. As part of ongoing performance management arrangements, each internal auditor is also required to assess their current skills and knowledge against the competency profile relevant for their role. Where necessary, further training or support will be provided to address any development needs.

The Head of Internal Audit is also a member of various professional networks and obtains information on operating arrangements and relevant best practice from other similar audit providers for comparison purposes.

The results of the annual client survey, PSIAS self-assessment, professional networking, and ongoing quality assurance and performance management arrangements are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans. The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board<sup>2</sup> as part of the annual report of the Head of Internal Audit.

## External assessment

At least once every five years, arrangements must be made to subject internal audit working practices to external assessment to ensure the continued application of professional standards. The assessment should be conducted by an independent and suitably qualified person or organisation and the results reported to the Head of Internal Audit. The outcome of the external assessment also forms part of the overall reporting process to each client (as set out above). Any specific areas identified as requiring further development and/or improvement will be included in the annual Improvement Action Plan for that year.

## 2.0 Customer Satisfaction Survey 2021

In March 2021 we asked clients for feedback on the overall quality of the internal audit service provided by Veritau. Where relevant, the survey also asked questions about counter fraud and information governance services. A total of 165 surveys (2020 – 136) were issued to senior managers in client organisations. A total of 19 responses were received representing a response rate of 12% (2020 – 11%). The surveys were sent using Survey Monkey and the respondents were required to identify who they were. Respondents were asked to rate the different elements of the audit process, as follows:

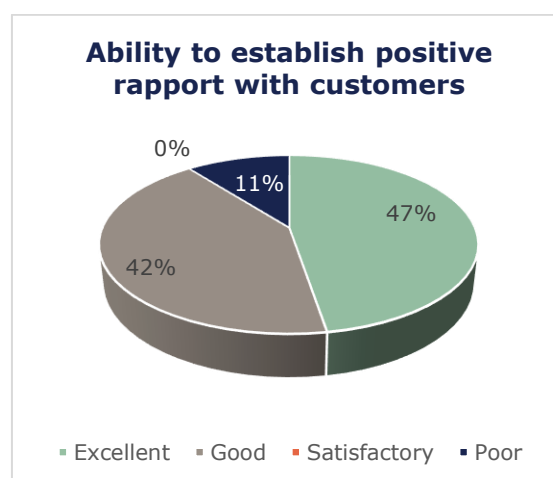
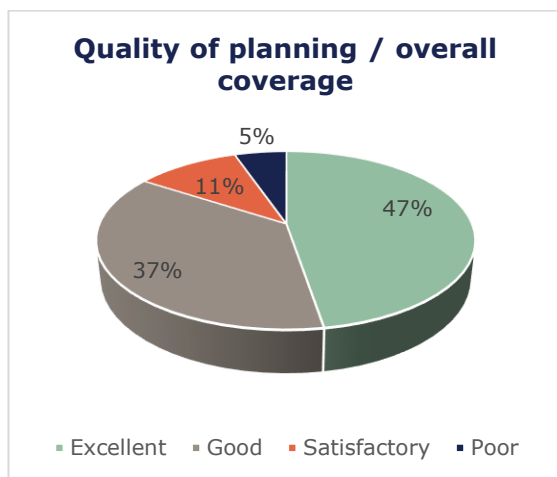
- Excellent (1)
- Good (2)

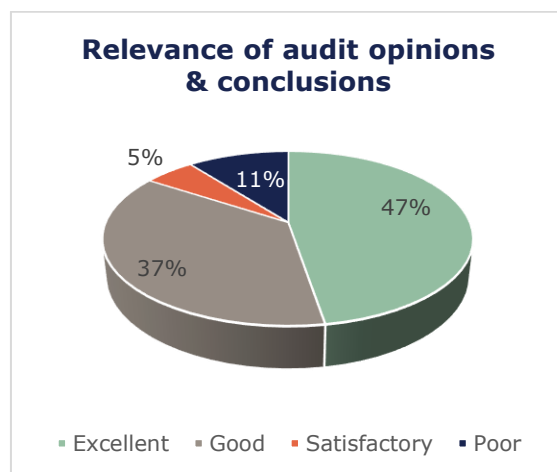
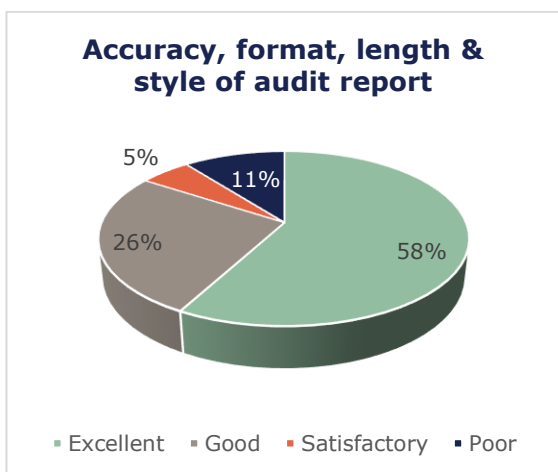
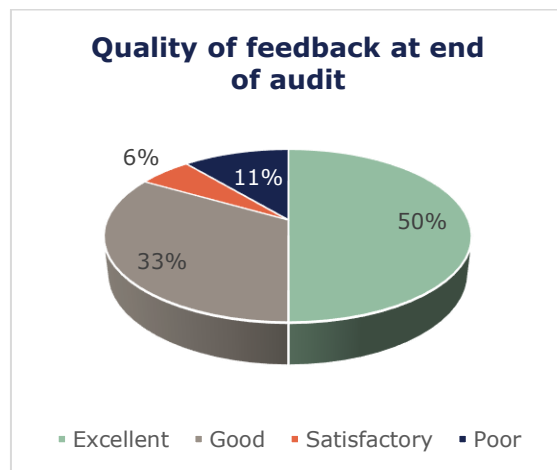
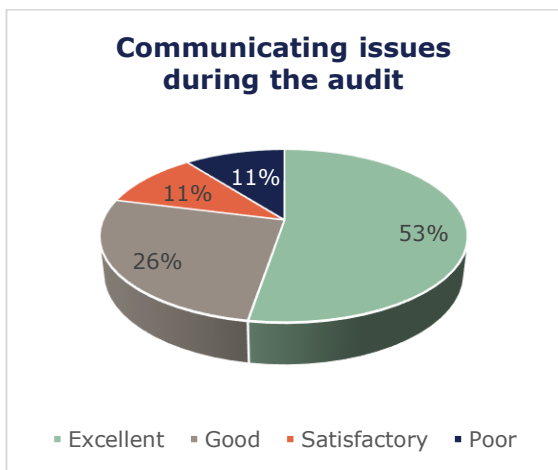
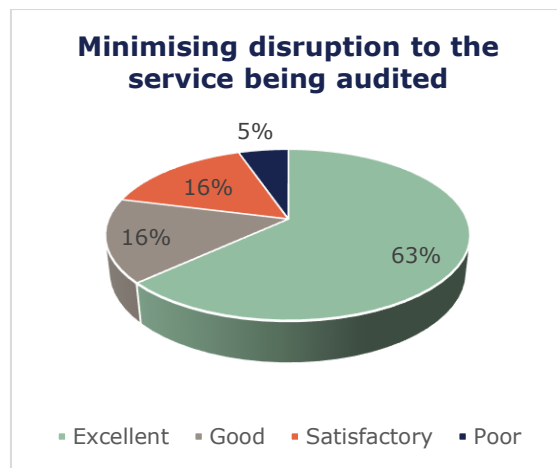
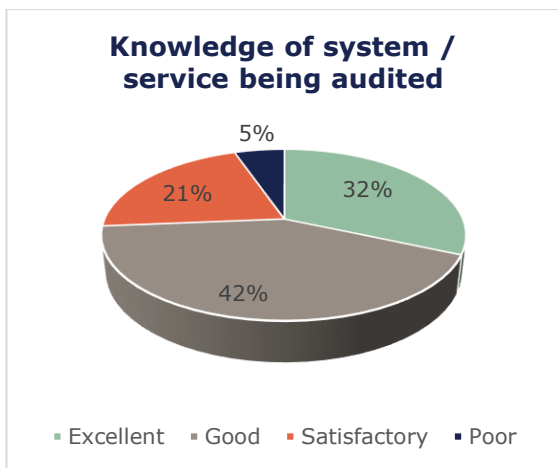
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<sup>2</sup> As defined by the relevant audit charter.

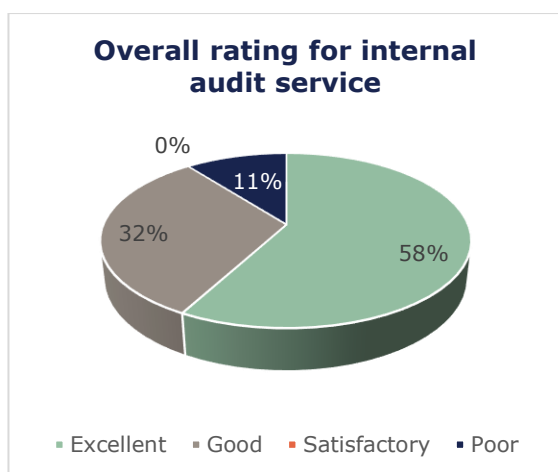
- Satisfactory (3)
- Poor (4)

Respondents were also asked to provide an overall rating for the service. The results of the survey are set out in the charts below. These are presented as percentages, for consistency with previous years. However, it is recognised that the low number of respondents means that the percentage for each category is sensitive to small changes in actual responses (1 respondent represents about 5%).









The overall ratings in 2021 were:

	2021		2020	
<b>Excellent</b>	11	58%	3	20%
<b>Good</b>	6	32%	11	73%
<b>Satisfactory</b>	0	0%	0	0%
<b>Poor</b>	2	11%	1	7%

The feedback shows that the majority of respondents continue to value the service being delivered.

### 3.0 Self-Assessment Checklist 2021

CIPFA has prepared a detailed checklist to enable conformance with the PSIAS and the Local Government Application Note to be assessed. The checklist was originally completed in March 2014 and has since been reviewed and updated annually. Documentary evidence is provided where current working practices are considered to fully or partially conform to the standards. A comprehensive update of the checklist was undertaken in 2020, following revisions by CIPFA.

Current working practices are considered to be at standard. However, as in previous years there are a few areas of non-conformance. These areas are mostly as a result of Veritau being a shared service delivering internal audit to a number of clients as well as providing other related governance services. None of the issues identified are considered to be significant. Existing arrangements are considered appropriate for the circumstances and require no further action.

The following areas of non-compliance remain largely unchanged from last year.

<b>Conformance with standard</b>	<b>Current position</b>
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the audit committee before the engagement	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The scope (and charging arrangements) for any specific engagement will be agreed by the

Conformance with standard	Current position
was accepted?	Head of Internal Audit and the relevant client officer. Engagements will not be accepted if there is any actual or perceived conflict of interest, or which might otherwise be detrimental to the reputation of Veritau.
Does the risk-based plan set out the respective priorities of audit work?	<p>Audit plans detail the work to be carried out and the estimated time requirement. The relative priority of each assignment will be considered before any subsequent changes are made to plans. Any significant changes to the plan will need to be discussed and agreed with the respective client officers (and reported to the audit committee).</p> <p>Work is currently ongoing to introduce flexible audit planning arrangements. As part of this exercise, we will be seeking to assign priorities to audit activities on an ongoing basis during the course of the relevant reporting period. Once complete, the new arrangements will remove this area of non-compliance.</p>
Are consulting engagements that have been accepted included in the risk-based plan?	Consulting engagements are commissioned and agreed separately.
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	An approach to using other sources of assurance, where appropriate is currently being developed (see below).

#### 4.0 External Assessment

As noted above, the PSIAS require the Head of Internal Audit to arrange for an external assessment to be conducted at least once every five years to ensure the continued application of professional standards. The assessment is intended to provide an independent and objective opinion on the quality of internal audit practices.

An external assessment of Veritau internal audit working practices was last undertaken in November 2018 by the South West Audit Partnership (SWAP). SWAP is a not for profit public services company operating primarily in the south west of England. As a large shared service internal audit provider it has the relevant knowledge and expertise to undertake external inspections of other shared services and is independent of Veritau.

The assessment consisted of a review of documentary evidence, including the self-assessment, and face to face interviews with a number of senior client officers and Veritau auditors. The assessors also interviewed audit committee chairs.

The report concluded that Veritau internal audit activity generally conforms to the PSIAS<sup>3</sup> and, overall, the findings were very positive. The feedback included comments that the internal audit service was highly valued by its member councils and other clients, and that services had continued to improve since the last external assessment in 2014.

## 5.0 Improvement Action Plan

The external assessment identified a number of areas for further consideration and possible improvement. An action plan was developed to address these areas. These actions have all been completed, other than one area (shown below) which remains in progress.

Recommendation	Current Position
<p>Whilst reliance may be placed on other sources of assurance, the self-assessment brought attention to the fact that there has not been an assurance mapping exercise to determine the approach to using other sources of assurance. Completion of such an exercise would ensure that work is coordinated with other assurance bodies and limited resources are not duplicating effort. (Attribute Standard 2050).</p>	<p>This work is in progress. Work has been undertaken over the last two years to identify other sources of assurance for each client. This exercise is ongoing, and more detailed actions have been incorporated into a longer term development strategy for Veritau internal audit services (see below).</p>

In 2020/21, the Quality Assurance group reviewed internal processes for the follow up of actions agreed during internal audit assignments. It found that follow up work is generally being undertaken routinely, and in line with expected procedures. In the majority of cases, actions raised in our reports are completed by the client and these actions address the issues originally raised.

<sup>3</sup> PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

Findings from follow up work are recorded on the Veritau internal audit management system. In most cases, sufficient evidence is held on the system to show that actions have been completed. However there are some cases where responses received from clients do not fully demonstrate that those actions have addressed the original findings. We also found that some improvements are needed to documenting and updating of information on the system. In particular, records were not always up to date, with some actions which had passed the agreed deadline remaining outstanding. This is partly due to the impact of Covid 19 – with a number of clients requesting an easing of follow up work during the pandemic. In 2021 we will review all outstanding actions, to bring details up to date. We will also be providing further training to the audit teams on documenting evidence to support the findings from follow up work.

In the last year, we have also recognised the need for a more fundamental review of internal audit practices within Veritau. While current arrangements meet the standards, the pace of change in local government and the wider public sector mean that we need to update aspects of the service to ensure it stays up to date and continues to deliver good value. We have therefore developed a three year strategy to help us improve the service. The strategy sets out the actions we will be taking within Veritau to modernise our practices, from April 2021. The five key areas we are focussing on are:

- increasing engagement across all clients
- further development of strategic planning frameworks
- redesign and modernisation of audit processes (for example flexible work planning and reducing the time to deliver findings)
- increasing investment in high value data analytics work
- introducing better measures of outcomes from audit work, to enable us to direct resources to areas of most value to our clients

## **6.0 Overall Conformance with PSIAS** ***(Opinion of the Head of Internal Audit)***

Based on the results of the quality assurance process I consider that the service generally conforms to the Public Sector Internal Audit Standards, including the *Code of Ethics* and the *Standards*.

The guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards.