

INTENRAL AUDITOR'S ANNUAL REPORT & OPINION 2018/19

1. PURPOSE AND RECOMMENDATIONS

Purpose of Report:	To present the Internal Audit annual opinion, performance of the Internal Audit service and to consider the effectiveness of Internal Audit.
Recommendations:	It is RECOMMENDED that: a) The Auditor's Annual Report and Opinion is noted and considered when approving the Annual Governance Statement. b) That the Committee confirms that it is satisfied with the effectiveness of Internal Audit when reviewing the system of internal control in line with Regulation 6 of the Accounts and Audit Regulations 2015.
Lead Members:	
Wards:	None
Contact Officer:	James Cranston, Internal Audit Manager

2. BACKGROUND

- 2.1 This annual report is produced in compliance with the Public Sector Internal Audit Standards (PSIAS) and the Internal Audit Charter.
- 2.2 The Accounts and Audit (England) Regulations 2015, requires that a "relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes." Regulation 6 specifically requires the organisation to annually review the effectiveness of the system of internal control.
- 2.3 The key areas of this report are;
- The auditor's opinion on the adequacy of the Council's control environment. The control environment is defined by the Assurance Framework.
 - Any other matters that should be considered for inclusion within the Annual Governance Statement.
 - The performance of Internal Audit.
 - Conformance against the PSIAS and the Internal Audit Charter.
- 2.4 Dorset's Local Government Reorganisation came into effect on 1st April 2019. As such Christchurch Borough Council and East Dorset District Council's Joint Audit Committee ceases to exist. Therefore this report will be presented to Audit Committees of the two new councils.

3. AUDIT OPINION

- 3.1 Management are responsible for maintaining adequate and effective control systems, managing risks and complying with Governance arrangements. Internal Audit reviews risk based systems and processes.
- 3.2 The opinion concludes on the overall adequacy and effectiveness of the Councils' framework of governance, risk management and control as at 10 June 2019.
- 3.3 **Appendix 1** provides details of the audit reviews undertaken in 2018/19 and the assurance ratings provided. The table below provides a summary:

Assurance Rating	Number of Audit Reviews in 2018/19	% against total reviews completed
Substantial Assurance - There is a strong system of control designed to achieve the system objectives with controls being consistently applied.	1	4%
Adequate Assurance - Whilst there is basically a sound system, there are weaknesses which may put some of the system objectives at risk.	20	87%
Limited Assurance - Weaknesses in the system of controls are such as to put system objectives at risk.	2	9%
No Assurance - Control is generally weak leaving the system open to significant error or abuse.	0	0%
Total Number of Audit Reviews Completed	23	
Reviews currently 'work in progress'	1	
Total Number of Audit Reviews to be undertaken in 2018/19	24	

- 3.4 23 audit reviews have been finalised and reported in 2018/19. The following audit review is currently work in progress:
- Procurement.
- Work undertaken on this audit so far has not raised any significant weaknesses in the systems.
- 3.5 The assurance framework for 2018/19 is detailed in **Appendix 2**. The assurance framework demonstrates that key assurances have been reviewed across all of the Council's services.

- 3.5 In forming the annual opinion, third party assurance was collected from the Borough of Poole in relation to the SVPP Debtors audit review. 65 days of Auditor resources was also purchased from Portsmouth City Council.
- 3.6 Based on the work undertaken by Internal Audit during 2018/19, it is the opinion of Internal Audit that:
- managers are aware of the importance of maintaining internal controls, managing risks and working to good governance standards and accept recommendations made by Internal Audit to improve any weaknesses identified.
 - The systems and internal control arrangements have generally been adequate.
 - Where significant weaknesses were identified during the year, high priority recommendations have been made and accepted by Management. Progress made against the high priority recommendations are monitored quarterly by the Joint Audit Committee.
 - Counter fraud arrangements are in place to deter and detect fraud, however, these arrangements require updating.
- 3.7 It is therefore the opinion of Internal Audit that an overall assurance level of 'adequate' is given for the adequacy and effectiveness of the Councils' framework of governance, risk management and control.

4. SUMMARY OF AUDIT WORK AND PERFORMANCE TO SUPPORT THE ANNUAL OPINION

Resources & Audit Plan Completion

- 4.1 The Internal Audit service covers Christchurch Borough Council and East Dorset District Council.
- 4.2 As stated in paragraph 3.3, **Appendix 1** details the opinion provided on each audit review and highlights the number of recommendations made. All audit reviews, save one audit, in the plan have been completed. This gives a completion rate of 96% as at 10 June 2019 (compared to 90% in 2017/18).
- 4.3 The audit plan for 2018/19 was approved by the Joint Audit Committee on 21 March 2018 to deliver 442 days of audit resources.
- 4.4 It is deemed by Internal Audit that the audit plan contains sufficient and adequate coverage across all services to provide an annual opinion on the

effectiveness of the Council's framework of governance, risk management and control.

- 4.5 There was no fraud Investigations undertaken by the Internal Audit service. However, Internal Audit co-ordinates the Council's National Fraud Initiative (NFI) and has monitored progress against potential data matches throughout the year.

Maintaining Performance and Standards

- 4.6 Auditor's performance is monitored and maintained through:

- Independent management review of all audits.
- Annual development appraisals (in line with Council policy)
- Ongoing training and development
- Continuing professional development as required by relevant professional bodies.

- 4.7 In undertaking all audit reviews our officers have acted independently, objectively and ethically at all times. All Auditors sign an annual declaration of the Institute of Internal Auditor's (IIA) code of ethics, which confirms that they will remain independent and will report any conflicts of interest to the Audit Partnership Manager or Strategic Director.

- 4.8 The Public Sector Internal Audit Standards (PSIAS) require the Internal Audit Team to develop and maintain a Quality Assurance and Improvement Programme (QAIP). The QAIP must include an annual self-assessment and an external assessment every five years. The standards are now in their sixth year and therefore the Internal Audit Service is overdue for an external assessment. However, due to Local Government Re-organisation, it has been deemed that it would not be beneficial to the Council to obtain an external assessment this year given that the Internal Auditing arrangements will be changing.

- 4.9 A self-assessment has been carried out by the Internal Audit Manager. It is deemed that the Internal Audit Service meet the standards set by the PSIAS save for the non-compliance detailed in paragraph 4.8. Although the self-assessment has identified minor improvements to the service, these will not be actioned due to the changes in Internal Auditing arrangements due to Local Government Reorganisation. However, **Appendix 3** outlines the weaknesses identified.

5. Corporate Plan & Council Objectives

- 5.1. Using financial and other resources effectively to maximise their utility and help improve services.

Legal

5.2. There are no legal implications arising from this report.

Environmental

5.3. There are no environmental issues arising directly from this report.

Financial and Risk

5.4. Inadequate coverage reduces the level of assurance available to the Committee relating to the reliability of the control environment within the authority.

Equalities

5.5. There are no equalities issues arising directly from this report

6. CONCLUSION

6.1. That the Committee reviews and approves the recommendations made.

Background Papers:

Internal Audit Charter and Audit Plan 2018/19

Appendices:

Appendix 1: Internal Audit Plan Summary of Opinions 2017/18

Appendix 2: Assurance Framework 2018/19

Appendix 3: PSIAS Self-Assessment Action Plan

APPENDIX 1

AUDIT PLAN TIMETABLE 2018/19

Christchurch and East Dorset Councils	Audit Days	Quarter to be completed				Assurance Opinion	Number of Recommendations			
		Q1 Apr-Jun	Q2 Jul-Sep	Q3 Oct-Dec	Q4 Jan-Mar		High	Medium	Low	VFM
		Beach Huts (CBC)	8	FINAL					Adequate	0
Moorings & Dinghy Park (CBC)	8	FINAL				Adequate	0	1	2	0
Grants inc Ward Budgets	10	FINAL				Adequate	0	4	3	0
Community Facility Policy and Asset management	15	FINAL				Adequate	0	0	1	0
Moors Valley Country Park (EDDC)	15	FINAL				Adequate	0	7	5	0
Development Management (From 17/18)	10		FINAL			Adequate	0	3	3	0
Estate Management (inc Investment Property and Community facilities)	10		FINAL			Adequate	0	4	1	0
Highcliffe Castle (CBC)	15			FINAL		Adequate	0	5	6	4
Treasury Management	10			FINAL		Adequate	0	0	3	0
Creditors	15			FINAL		Limited	1	1	1	0
Cash Receipting and Reconciliation	15			FINAL		Adequate	0	2	2	0
Debtors	15			FINAL		Adequate	0	5	0	0
Council Tax	15			FINAL		Adequate	0	2	1	0
National Non Domestic Rates	15			FINAL		Adequate	0	2	1	0
Benefits	10			FINAL		Substantial	0	0	0	0
Information Governance - GDPR	10			FINAL		Adequate	0	5	1	0
Parking and Enforcement	15			FINAL		Adequate	0	2	2	0
Main Accounting System inc bank reconciliation	10				FINAL	Adequate	0	2	1	0
Payroll (inc T&S, Car Loans and Member Allowances and Civic Expenses)	15				FINAL	Adequate	0	1	1	0
IT	10				FINAL	Limited	1	1	0	0
Procurement	20				WIP					
Engineering Maintenance (Works) to include Asset Inspections	15				FINAL	Adequate	0	3	0	0
Housing	15				FINAL	Adequate	1	1	1	0
Planning Policy/S106/CIL (From 17/18)	10				FINAL	Adequate	0	4	1	2

KEY

Planned = Quarter to be completed.

WIP = Work in Progress.

Draft = A draft report for discussion has been issued.

Final = A final report has been agreed and issued.

APPENDIX 2

Audit	Lead Service	Leisure & Community (LC)	ICT & Communications (ICT)	Organisation Development (OD)	Growth & Economy (GE)	Public Health & Protection (PH)	Housing (H)	Planning (P)	Legal & Democratic (LD)	Financial Services (FS)	Property, Engineering & Car Parks (PEC)	Total Days 18/19
Key Financials												
Main Accounting System inc bank reconciliation	FS	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Treasury Management	FS									✓		10
Creditors	FS	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	15
Cash Receipting and Reconciliation	FS	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	15
Payroll (inc T&S, Car Loans and Member Allowances and Civic Expenses)	FS	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	15
Debtors	FS	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	15
Council Tax	FS									✓		15
National Non Domestic Rates	FS									✓		15
Benefits	FS									✓		10
Key Assurance Functions												
Risk Management	FS	✓						✓			✓	19
Financial Management	FS	✓	✓					✓	✓	✓	✓	71
Performance Management	OD	✓						✓			✓	4
Asset Management	PEC	✓	✓							✓	✓	14
Information Governance	ICT	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	22
Business Continuity	OD	✓										1
Health and Safety	PH	✓				✓		✓				5
Human Resources	OD	✓		✓							✓	6
ICT	ICT	✓	✓					✓			✓	10
Procurement	FS	✓	✓								✓	33
Follow ups	FS	✓					✓	✓	✓	✓	✓	10
Counter Fraud & NFI	FS			✓		✓	✓		✓	✓	✓	36
Consultancy/Advice	FS									✓		30
Audit Management	FS									✓		60
Total Days												441
Days Left as WIP												1
Total Plan Days												442

The Standard	Action Plan
3.1 - 1000 Purpose, Authority and Responsibility	
Does the internal audit charter define the terms 'board' and 'senior management', for the purposes of the internal audit activity?	The Charter does contain who the 'Board' and 'Senior Management' are; however, it does not specifically define what the terms are.
Does the Audit Charter Set out the existing arrangements within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	The Charter does refer to anti-fraud but does not detail the anti-fraud and corruption policies
3.4 - 1300 Quality Assurance and Improvement Programme	
Does the QAIP include both internal and external assessments?	PSIAS requires the Council to have an external assessment every five years. 2018/19 was the sixth year; however, no external assessment has been carried out due to the outcome of the Local Government Reorganisation. This has been highlighted in the annual internal auditor's opinion.
Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices?	Self-assessments are undertaken annually. However, as stated above no external assessment has been undertaken within five years.
Does ongoing performance monitoring include obtaining stakeholder feedback?	Audit questionnaires have not been issued and collated at the end of each audit.
4 - Performance Standards	
Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	There is an audit manual in place but this was last updated in 2013. The Audit Manual requires updating.

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Has the internal audit activity evaluated the a) design, b) implementation and c) effectiveness of the organisation's ethics-related objectives, programmes and activities?	No audits carried out have evaluated the ethics-related activities of the Councils. It is not proposed that ethics-related audits will be carried out in 2018/19.
Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?	The whistle blowing policy and fraud awareness training are out of date and require updating.