

# East Staffordshire Borough Council

## Internal Audit Annual Report & Opinion 2019/20

April 2020



**cw audit**  
audit and assurance services

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# 1. Introduction

This annual report provides my opinion (see section 2) as the Head of Internal Audit to East Staffordshire Borough Council. It also summarises the activities of Internal Audit for the period 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020.

The Council is required by the Accounts & Audit Regulations 2015 to “to undertake an adequate and effective internal audit of its accounting records and of its system of internal control, taking into account public sector internal auditing standards or guidance”. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide a written report to those charged with governance, to support the Annual Governance Statement, AGS), setting out:

- An opinion on the overall adequacy and effectiveness of the organisation’s control environment ;
- Disclose any qualifications to that opinion, together with the reasons for that qualification;
- Present a summary of the work carried out by Internal Audit during the year from which the opinion is derived, including any reliance that is being placed upon third party assurances;
- Draw attention to any issues the Head of Internal Audit deems particularly relevant to the Annual Governance Statement (AGS)
- Consider delivery and performance of the Internal Audit function against that planned;
- Comment on compliance with these Standards and the results of any quality assurance programme.

The Council should consider my opinion, together with management assurances, its own knowledge of the organisation and assurances received throughout the year from other review bodies (such as External Audit) when producing its AGS.

My opinion takes into account the range of individual opinions arising from risk-based audit assignments that have been reported throughout the year. An internal audit plan was developed to provide you with independent assurance on the adequacy and effectiveness of systems of control across a range of financial and organisational areas. **A summary of the work we have performed and delivery against the plan is provided in section 3.**

Alongside the delivery of the operational internal audit work, we have met regularly with Council management to ensure any issues regarding our performance can be highlighted and any necessary action taken to resolve these. Following each audit, management are also requested to provide feedback on the service received. No significant issues or concerns regarding the internal audit service have been raised to date.

I have discussed and agreed this Annual Report and Head of Internal Audit Opinion with the Head of Service and Section 151 Officer. Further detailed findings, conclusions and recommendations in the areas covered by our internal audit plan are detailed within the progress reports and individual assignment reports that have been issued to the Audit Committee during the year.

## 2. Annual Head of Internal Audit Opinion

### Roles and responsibilities

The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.

Internal Audit provides an independent and objective opinion to the organisation on the control environment and plays a vital part in advising the organisation whether these arrangements are in place and operating correctly.

The Annual Governance Statement (AGS) is an annual statement that recognises, records and publishes an authority's governance arrangements.

In accordance with PSIAS, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that Internal Audit have reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans. As such, it is one component that the organisation takes into account in making its AGS.

## The Head of Internal Audit Opinion

My opinion is set out as follows:

1. Overall opinion;
2. Basis for the opinion;

My **overall opinion** is that **significant** assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weakness in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.

The basis for forming my opinion is as follows:

1. An initial assessment of the design and operation of the underpinning risk management framework and supporting processes; and
2. An assessment of the range of individual opinions arising from risk-based audit assignments contained within internal audit risk-based plans that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses.
3. Any reliance that is being placed upon third party assurances.

**At this stage, my opinion is based upon the work we have completed. There remain a number of reviews where our work has been delayed as a result of the coronavirus pandemic. Once we have completed this work, I reserve the right to revise my overall opinion accordingly, should our work identify any significant internal control issues.**

## 3. Work undertaken during the year

### Summary of assurances provided

During the course of the year we have conducted work to provide assurance over financial, governance and operational systems. Appendix 1 summarises the assurance levels we have given.

### Delivery of the plan

An internal audit plan for 2019/20 was developed to provide you with independent assurance on the adequacy and effectiveness of systems of control across a range of financial and organisational areas. To achieve this our internal audit plan was divided into two broad categories; work on the financial systems that underpin your financial processing and reporting and then broader risk focused work driven essentially by principal risk areas that had been identified in your risk register. A summary of work undertaken is included below:

- During the year we have undertaken reviews of your core financial systems (including budgetary control/MTFS, key financial system controls) and given full or significant assurance with regard to the management of risk in these areas. We have also reviewed the high level controls operating in other key financial systems such as debtors, creditors and payroll and found no significant issues to report.
- Key income and expenditure systems such as Council Tax, Business Rates and Benefits have been subject to detailed audit review. Once again, controls were found to be operating effectively.
- We have undertaken a number of pieces of work on areas of principal risk. We have been able to conclude that these systems are robust and operate in a good control environment.

Towards the end of the year our ability to complete remaining planned audits for 2019/20 has been impacted by the coronavirus pandemic. We have liaised closely with senior officers at the Council and are now completing some of the remaining audits, whilst others have been delayed, dependent on the capacity of the relevant service areas, as reflected in the table at Appendix 1. We will continue to liaise with management to conclude our 2019/20 work as promptly as practicable.

It is my view, taking account of the respective levels of assurance provided for each audit review, an assessment of the relevant weighting of each individual assignment and the extent to which agreed actions have been implemented, that you have a generally sound system of internal control. We are pleased to report that our work has not highlighted any weaknesses that should be regarded as Significant Internal Control Issues that would require disclosure within your AGS. **Whilst not related to the work we have completed ourselves during 2019/20, we are recommending to all our clients that the impact and potential impact of the COVID-19 pandemic (for instance on HR, service delivery/capacity, existing systems/controls and budgets) be strongly considered for disclosure as a Significant Internal Control Issue. Notwithstanding this, the Council should account for the significant risks arising from the pandemic, and the associated actions taken to mitigate these, as part of its Annual Governance Statement.**

### Third party assurances

In arriving at our overall Annual Head of Internal Audit Opinion, we have not sought to place reliance on any third party assurances.

### Following up of actions arising from our work

All recommendations and agreed actions are subject to an ongoing recommendation tracking process that is facilitated by CW Audit Services, but completed by the relevant managers responsible for implementing the recommendations. This is undertaken on a self-assessment basis, but is supplemented by our independent follow-up reviews where this is deemed necessary (for example following the issuance of a limited or moderate assurance report). A summary of the recommendation tracking results for the 2019/20 year is included as Appendix 2 to this report. In addition elements of our work involve annual coverage of key areas of control for the organisation, such as in relation to key financial systems, and in such cases we also routinely follow up previously-agreed actions at each review.



## **4. Quality Assurance**

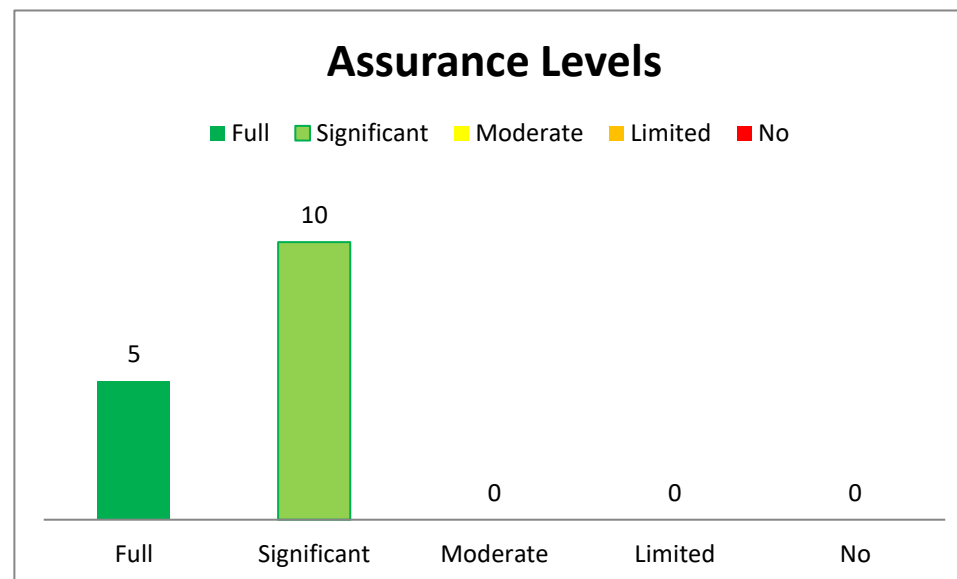
All audits have been conducted in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), which includes evidenced review by senior management of all audit files and reports produced. I can confirm that there have been no issues of non-compliance with the PSIAS during the course of the year. CW Audit's systems and processes for complying with PSIAS were confirmed as appropriate to need by an external assessment that was carried out in April 2018. I can confirm that all audits completed during 2019/20 were carried out in accordance with these systems and processes.

## Levels of Assurance – Individual Audit Assignments

### Appendix One

Description of audit	Assurance level
Budgetary Control/MTFS	Full
Human Resources (Sickness Absence)	Full*
Capital Project Assurance	N/A
Procurement and Contract Management	In progress
Register of Interests, Gifts, Hospitality	In progress
Councillor Induction	N/A
Capital Disposal Assurance	N/A
Creditors	Full
Payroll	Significant
Pensions Assurance	N/A
Benefits / Council Tax Support	Significant*
Council Tax	Significant*
Business Rates	Significant*
Debtors and Debt Recovery	In progress
Financial Systems	Full
Digital Strategy	Significant
IT Disaster Recovery	Significant*
Street Cleaning	Delayed
Disabilities Facilities Grants	Significant
Building Services Contract	In progress
Leisure Contract Monitoring	Significant
Brewhouse	Significant
Markets	Significant
Cemeteries	Full
Enforcement	Delayed

\*at draft report stage



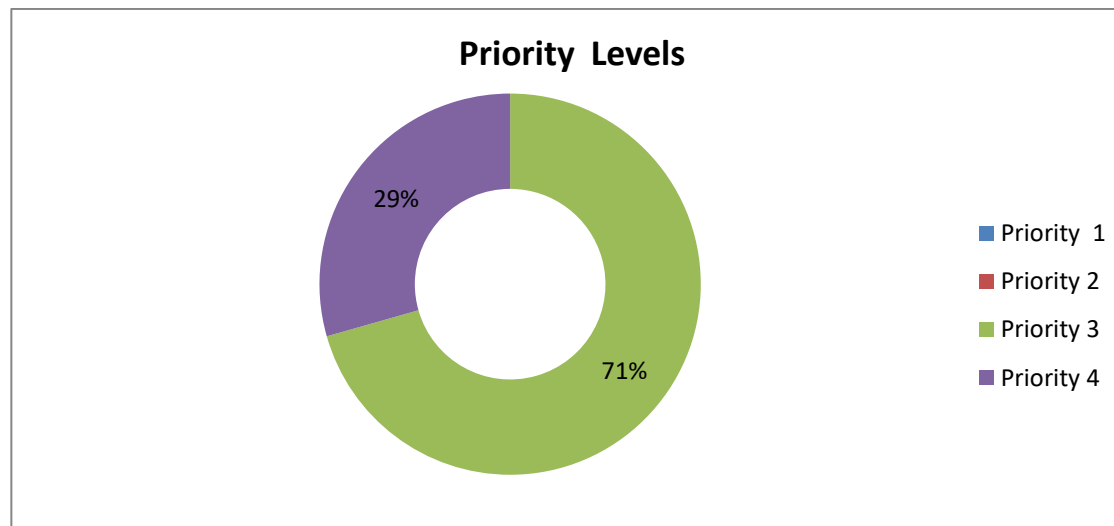
Level of assurance	Criteria
Full	No significant risk issues identified.
Significant	Exposure to levels of risk that may only impair the effectiveness of the system or process under review.
Moderate	Exposure to levels of risk that render some elements of the system's control environment undeliverable.
Limited	Exposure to unacceptable level of risk that could have a serious impact upon the system or process under review.
No	Exposure to unacceptable levels of risk that could have a serious impact upon the organisation as a whole.

## Summary of Internal Audit Recommendations

### Recommendations made in 2019/20

Priority	Number
1	0
2	0
3	12
4	5
<b>Total</b>	<b>17</b>

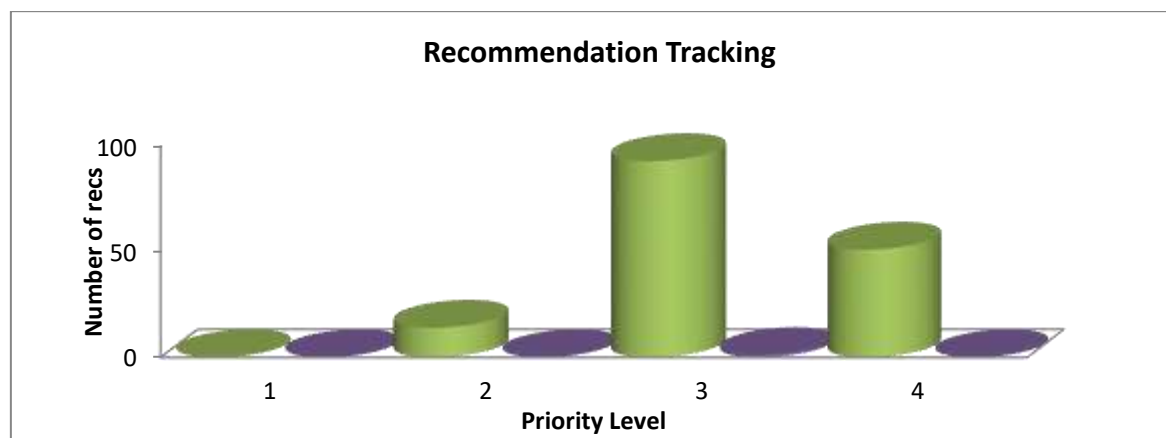
(finalised audits only)



### Current status of all recommendations due for implementation by 31st March 2020

(N.B. including recommendations made in 2019/20 and preceding 3 years, but excluding 2019/20 recommendations that fall due for implementation after 31<sup>st</sup> March 2020)

Priority	Number	Implemented	Outstanding
1	0	n/a	n/a
2	14	14	0
3	94	93	1
4	51	51	0
<b>Total</b>	<b>159</b>	<b>158</b>	<b>1</b>



## Definition of our risk rankings

Risk ranking	Assessment rationale
1	The system has been subject to high levels of risk that have, or could, prevent the system from meeting its objectives, and which may also impact on the delivery of one or more of the organisation's strategic objectives.
2	The system has been subject to high levels of risk that have, or could, prevent the system from meeting its objectives, but which are unlikely to impact on any of the organisation's strategic objectives.
3	The system has been subject to medium levels of risk that have, or could, impair the system from meeting its objectives.
4	The system has been subject to low levels of risk that have, or could, reduce its operational effectiveness.