central midlands audit partnership

Ashfield District Council –
Internal Audit Annual Report 2019-20
Audit Committee: 27 July 2020

Ashfield
DISTRICT 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 Mandy Marples, Audit Manager.

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 Audit Manager 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 Audit Manager'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.

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 reassessed 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

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As required, we have also undertaken a self-assessment against the Standards in January 2020 using the tool specifically developed by the Institute of Internal Auditors (IIA) for this purpose.

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.

As such, CMAP has identified a number of actions for improvement some of which are listed in the Improvement Plan section at the end of this report.

Audit Opinion 2019-20

Based on the work undertaken during the year, I have reached the overall opinion that there is a **Satisfactory System of Governance, Risk and Internal Control** - Findings indicate that on the whole, arrangements are satisfactory, although some enhancements may have been recommended.

In forming this opinion, I am satisfied that no conflicts of interest have occurred which would have any bearing on my independence or objectivity. Also, my 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.

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

- The level of coverage provided by Internal Audit was considered adequate.

  Note: The completion of the key areas of 2019-20 audit work was not significantly disrupted by the COVID-19 pandemic. 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.

- We place reliance on other assurance providers who contribute to the overall assurance framework.

- 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 organisation's control environment is operating effectively.

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

- The changing risk environment within the Council has been taken into account during the 2019-20 financial year. Key features included;

  Strategic Leadership - Following the departure of the Chief Executive in September 2019, the Interim Director of Place & Communities was appointed to the role of Interim Chief Executive whilst the post was permanently recruited to. This allowed a smooth transfer of responsibility and has been an ongoing arrangement due to the pandemic delaying the recruitment process.

  Anti-Fraud – The Council continued to develop a framework to underpin its Anti-fraud and corruption agenda, and further work on NFI Data Matching has taken place during the year. A review of Single Person Discounts and of anti-fraud measures at the Council highlighted further opportunities to improve and embed an anti-fraud culture. The Corporate approach needs to be further developed and supported by appropriate capacity.

  Commercial Investments - The Council continued with its ambitious programme of Commercial investments, increasing its reliance on the income

generated to support the provision of services. The effective management of the portfolio and its effects on the Council's financial sustainability will be kept under review during 2020-21.

- One change was made to the Audit Plan during the year; a People Management audit was removed and the additional time was spent on securing the implementation of outstanding recommendations. A planned training session on the importance of recommendation implementation with the Council's managers was postponed due to the pandemic. Issues with progressing recommendation implementation have been exacerbated by the pandemic as officers time has been diverted to business continuity arrangements.

  Note: The impact of the COVID-19 pandemic is largely on the 2020-21 governance, risk and control environment. This will be reflected in the 2020-21 internal audit plan which will be reviewed on an on-going basis. Any changes to the internal audit plan will be discussed with Senior Management and reported to the Audit Committee.

- No adverse implications for the organisation's Annual Governance Statement have been identified from any of the work that Internal Audit has undertaken in 2019-20.

- The 2019-20 Internal Audit Plan, approved by the Audit Committee on 11th March 2019, 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 following tables summarise the 2019-20 Audit Plan assignments and their outcomes as well as those assignments from the 2018-19 Audit Plan which were still ongoing in 2019-20.

2019-20 Jobs	Status	% Complete	Assurance Rating
Anti-Fraud & Corruption 2019-20	Final Report	100%	Reasonable
Information Governance	Final Report	100%	Reasonable
Medium Term Financial Plan	Final Report	100%	Reasonable
Creditors 2019-20	Final Report	100%	Comprehensive
IT Policy Compliance	Final Report	100%	Limited
Transformation Project Assurance	In Progress	60%	
Digital Transformation	Final Report	100%	Reasonable
Data Quality & Performance Management	Final Report	100%	Reasonable
Procurement 2019-20	Final Report	100%	Reasonable
NDR 2019-20	Final Report	100%	Comprehensive
E-Payments 2019-20	Final Report	100%	Comprehensive
Anti-Social Behaviour	Final Report	100%	Reasonable
Fire Safety	Final Report	100%	Reasonable
Homelessness	Final Report	100%	Reasonable
Asset Management - Door Access	Final Report	100%	Limited

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B/Fwd Jobs	Status	% Complete	Assurance Rating
Anti-Fraud	Final Report	100%	N/A
Commercial Property Management	Final Report	100%	Reasonable
Universal Credit	Final Report	100%	Comprehensive

- Of the 17 completed assignments, 14 attracted either a Comprehensive or Reasonable assurance rating and 2 assignments were given a Limited assurance rating. There was also a piece of work on Anti-fraud that could not be assigned an assurance rating due to the nature of the review. From the completed assignments a total of 98 recommendations were made; 62 of these were considered to present a low risk; 36 were considered to present a moderate risk; none were considered to present either a significant or critical risk. Although there were a number of moderate risk recommendations made, they were not significant in aggregate to the system of internal control.
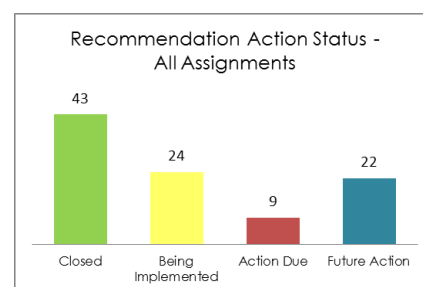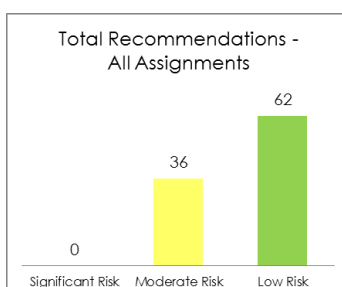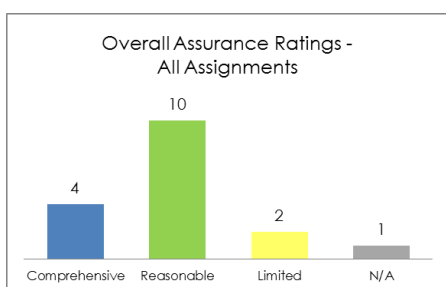

- All of the 4 **Key Financial System** audits undertaken in 2019-20 were finalised and 3 attracted a Comprehensive overall assurance rating and 1 a Reasonable rating. These audit assignments identified 17 recommendations, 16 of which were classified as low risk and 1 moderate risk. The moderate risk recommendation has a future action date.
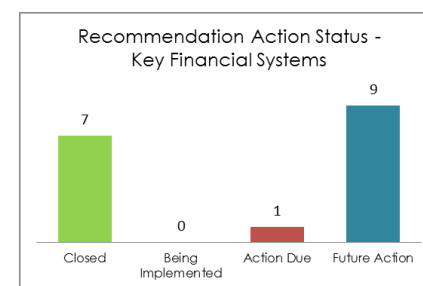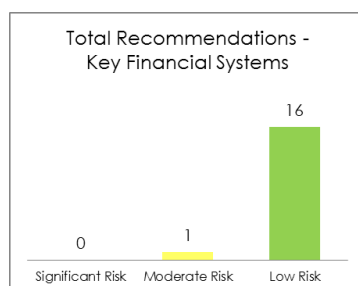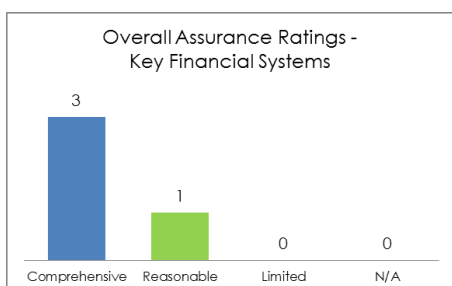

- Of the 7 **System/Risk** audits undertaken in 2019-20, all were finalised. One attracted a Comprehensive; 5 a Reasonable overall assurance rating and 1 attracted a **Limited** assurance rating (Asset Management – Door Access). A total of 41 recommendations were made; 16 of which were considered to present a moderate risk, 25 were judged as low risk. There were no significant or critical risk issues identified. Of the 16 moderate risk issues identified, 10 had been addressed to our satisfaction; 2 had passed their original action date but management had yet to provide any update information (Asset Management

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– Door Access and Anti-Social Behaviour); the remaining 4 recommendations were in the process of being implemented and have revised action dates.
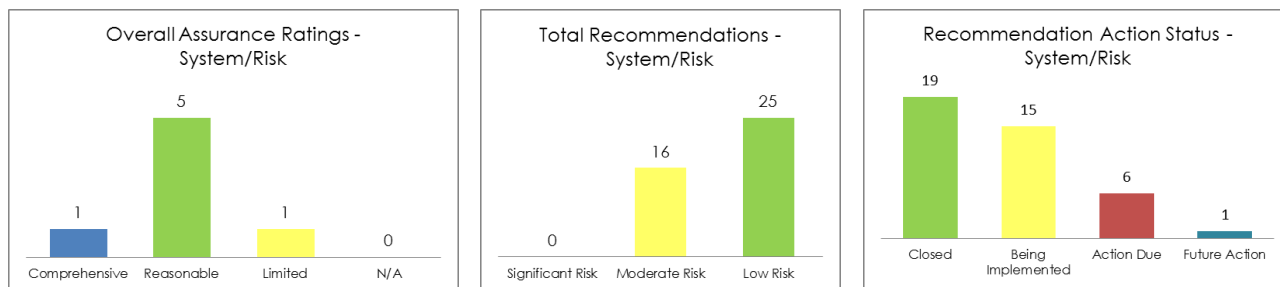
- Both of the **Governance/Ethics** audits undertaken during 2019-20 have been finalised and were judged to have Reasonable overall assurance ratings. The assignments resulted in 10 recommendations; 7 of which were considered to represent a moderate risk and 3 a low risk. 3 of the moderate risk issues are in the process of being implemented and 4 have a future action date.
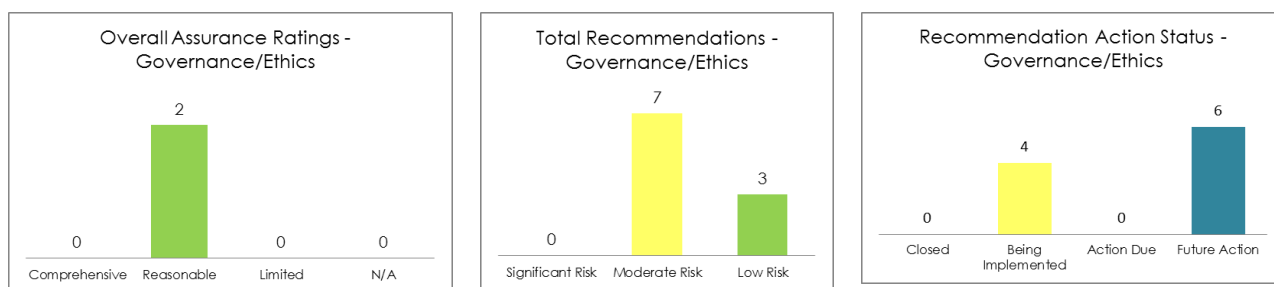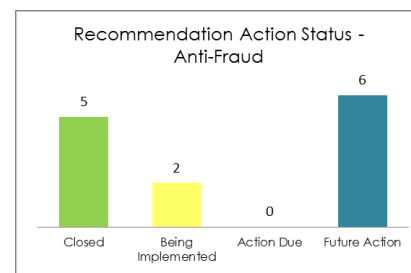

- Of the 2 **IT Audits** undertaken one was completed during 2019-20 and attracted a **Limited** assurance rating (IT Policy Compliance). A total of 13 recommendations were made, 5 of which were moderate risk recommendations and 8 low risk. Of the 5 moderate risk issues, 4 have been implemented to our satisfaction, the remaining issue has passed its original action date, but management has not provided a revised action date when the issue will be addressed. The other assignment regarding the Transformation Project Assurance won't be assigned an assurance rating due to the nature of the review.
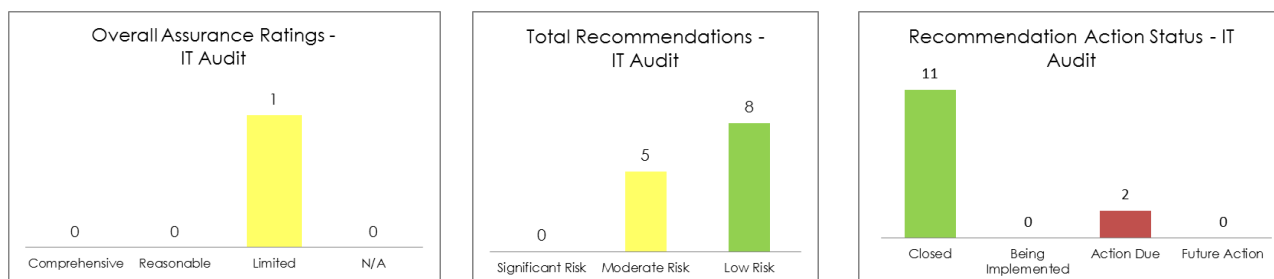
- Of the 2 **Anti-fraud** assignments undertaken in 2019-20, 1 piece of consultancy work was finalised that did not result in an overall assurance rating, but raised 2 moderate risk recommendations, both of which have passed their original action date and have revised action dates. The other audit was completed

and attracted a Reasonable assurance rating. Of the 11 recommendations raised, 2 were considered to be moderate risk and both have future implementation dates.

Overall Assurance Ratings - Anti-Fraud

Comprehensive	Reasonable	Limited	N/A
0	1	0	1

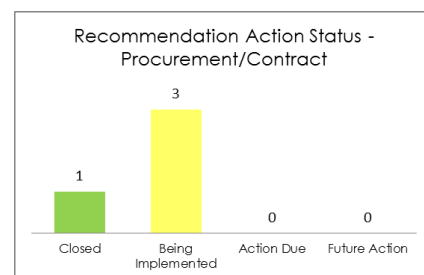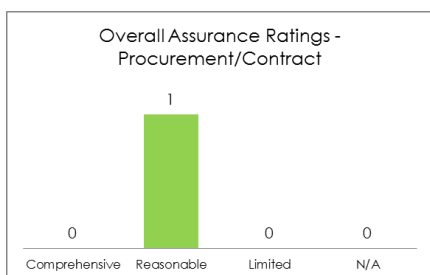**Total Recommendations - Anti-Fraud**

Significant Risk	Moderate Risk	Low Risk
0	4	9

Recommendation Action Status - Anti-Fraud

Closed	Being Implemented	Action Due	Future Action
5	2	0	6
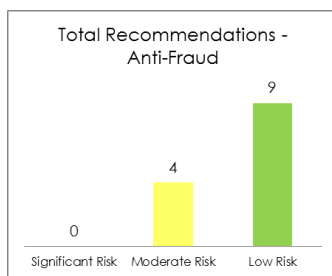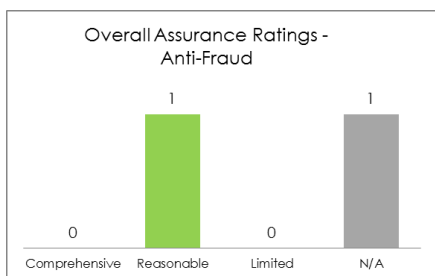
- The 1 **Procurement/Contract** audit finalised during 2019-20 attracted an overall assurance rating of Reasonable. The assignment identified 4 recommendations, 3 of which were classified as moderate risk and 1 was considered a low risk. All 3 moderate risk recommendations have passed their original action date and have a revised action date.

Overall Assurance Ratings - Procurement/Contract

Comprehensive	Reasonable	Limited	N/A
0	1	0	0

Total Recommendations - Procurement/Contract

Significant Risk	Moderate Risk	Low Risk
0	3	1

Recommendation Action Status - Procurement/Contract

Closed	Being Implemented	Action Due	Future Action
1	3	0	0

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.

Audit Coverage

Assurances Provided

The following table seeks to summarise the extent of audit coverage provided to Ashfield District Council during 2019-20 and the assurance ratings associated with each audit assignment.

Summary of Audit Plan 2019-20 Results (incl. Jobs B/Fwd)	Type of Review						Totals
	Key Financial System	System/ Risk	Governance /Ethics	IT Audit	Anti-Fraud	Procurement /Contract	
Not Yet Complete				1			1
Comprehensive	3	1					4
Reasonable	1	5	2		1	1	10
Limited		1		1			2
None							
N/A					1		1
	4	7	2	2	2	1	18

Assurance Ratings Explained

Comprehensive - We are able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.

Reasonable - We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

Limited - We are able to offer limited assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

None - We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks were not being well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

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 2019-20

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Medium Term Financial Plan	Reasonable			1	6	14%
Creditors 2019-20	Comprehensive				4	
NDR 2019-20	Comprehensive				3	100%
Universal Credit	Comprehensive				3	100%
Data Quality & Performance Management	Reasonable			1	3	
E-Payments	Comprehensive				2	
Anti-Social Behaviour	Reasonable			2	5	29%
Fire Safety	Reasonable			3	2	80%
Homelessness	Reasonable			2	7	22 %
Asset Management - Door Access	Limited			4	4	63%
Commercial Property Management	Reasonable			4	2	100%
Information Governance	Reasonable			3	1	
Digital Transformation	Reasonable			4	2	
IT Policy Compliance	Limited			5	8	85%
Transformation Project Assurance						n/a
Anti-Fraud & Corruption 2019-20	Reasonable			2	9	45%
Anti-Fraud	N/A			2		
Procurement 2019-20	Reasonable			3	1	25%
TOTALS				**36**	**62**	**44%**

Internal Controls Examined

For those audits finalised during 2019-20, we established the following information about the controls examined:
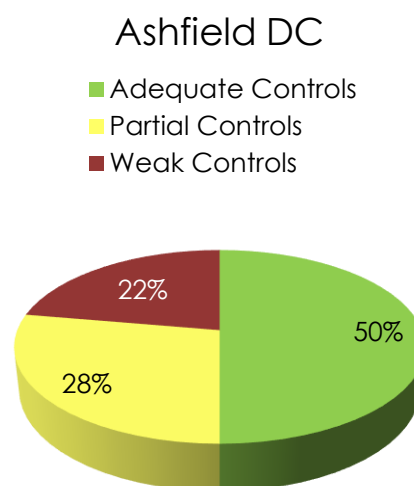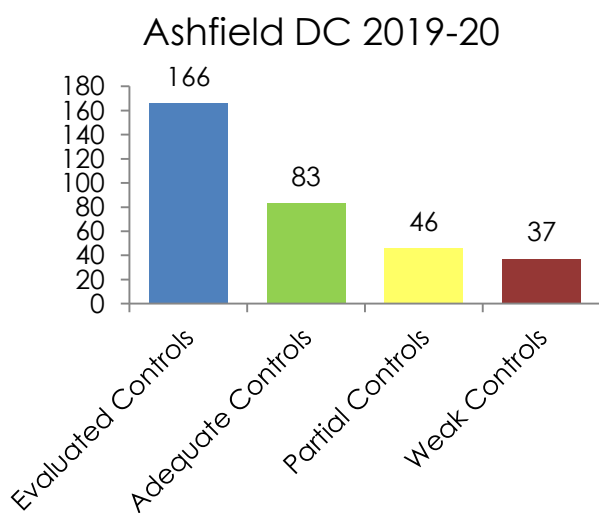
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Recommendations Made

The control weaknesses identified above resulted in 98 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 2019-20:
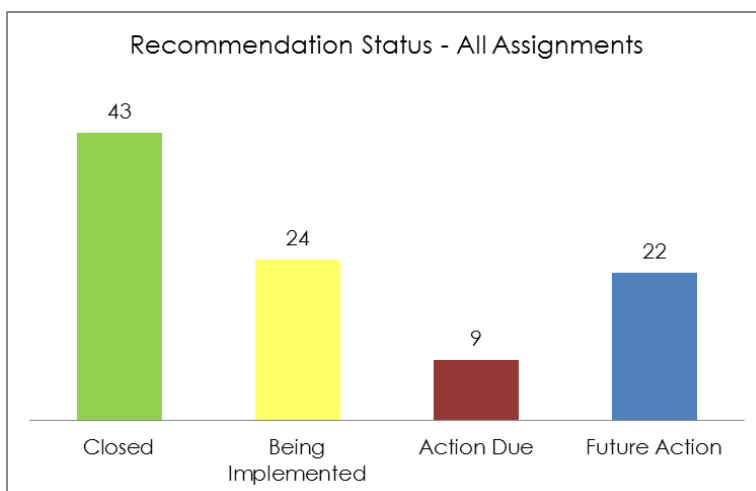
Audit Assignments Completed in Period	Type of Review	Recommendations Status			
		Total Closed	Action Due	Being Implemented	Future Action
Medium Term Financial Plan	Key Financial System	1			6
Creditors 2019-20	Key Financial System		1		3
NDR 2019-20	Key Financial System	3			
Universal Credit	Key Financial System	3			
Data Quality & Performance Management	System/Risk			4	
E-Payments	System/Risk		1		1
Anti-Social Behaviour	System/Risk	2	5		
Fire Safety	System/Risk	4		1	
Homelessness	System/Risk	2		7	
Asset Management - Door Access	System/Risk	5		3	
Commercial Property Management	System/Risk	6			
Information Governance	Governance/Ethics			4	
Digital Transformation	Governance/Ethics				6
IT Policy Compliance	IT Audit	11	2		
Transformation Project Assurance	IT Audit				
Anti-Fraud & Corruption 2019-20	Anti-Fraud	5			6
Anti-Fraud	Anti-Fraud			2	
Procurement 2019-20	Procurement/Contract	1		3	
TOTALS		**43**	**9**	**24**	**22**

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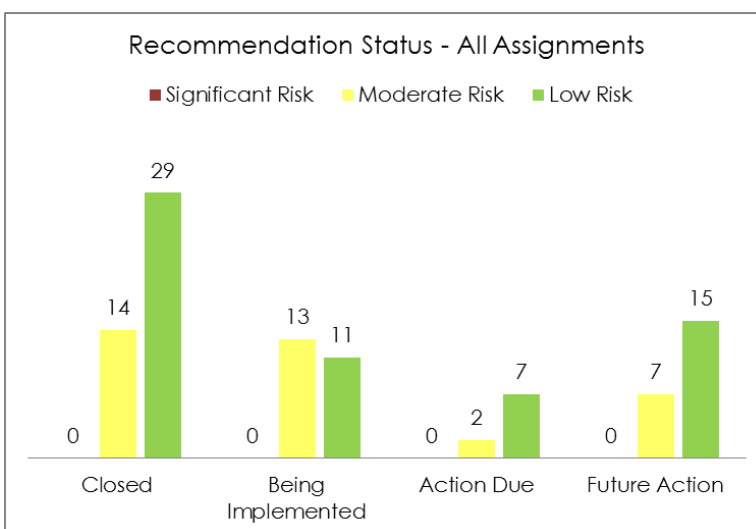
Recommendations Summary

These 98 recommendations have resulted from the 17 audit assigments finalised either during 2019-20 or finalised in the time following the year-end. Approximately 63% of all recommendations made were considered to present a low risk, 37% a moderate risk and 0% a significant risk.

Recommendations Made 2019-20

- Significant Risk: 0
- Moderate Risk: 36
- Low Risk: 62
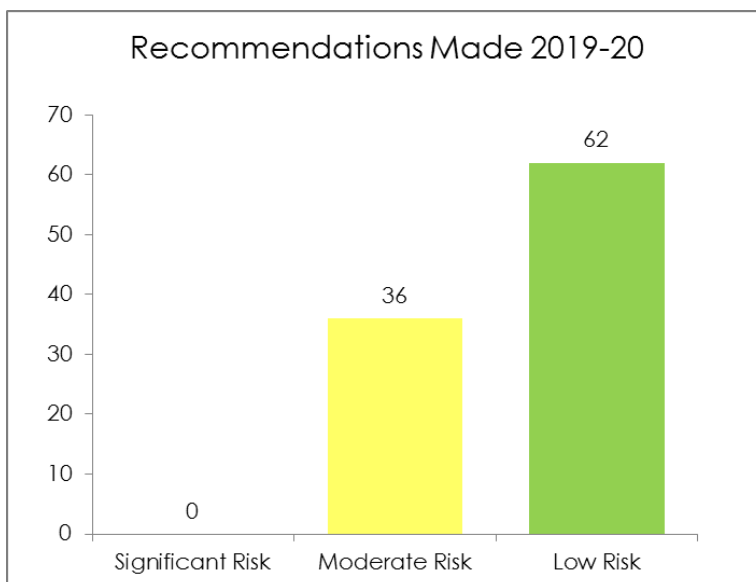
Of the 98 recommendations made, 44% have been closed, 25% have passed their original action date and a revised target has been set, 9% have passed their original action date but we have not yet received information regarding the status of management's action. The remaining 22% have an agreed original action date set in the future.

Recommendation Status - All Assignments

- Closed: 43
- Being Implemented: 24
- Action Due: 9
- Future Action: 22

It is pleasing to note that 14 of the moderate risk recommendations raised have been addressed to our satisfaction, as have 29 of the low risk recommendations. We will continue to monitor all recommendations not yet addressed and will bring those moderate risk recommendations that remain outstanding to the attention of the Audit Committee throughout the coming year.

Recommendation Status - All Assignments

Significant Risk / Moderate Risk / Low Risk

- Closed: Significant Risk 0, Moderate Risk 14, Low Risk 29
- Being Implemented: Significant Risk 0, Moderate Risk 13, Low Risk 11
- Action Due: Significant Risk 0, Moderate Risk 2, Low Risk 7
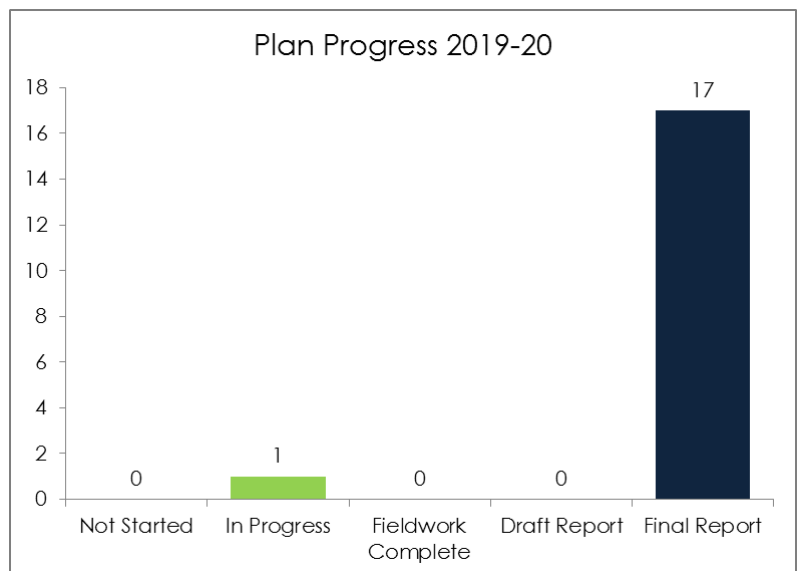- Future Action: Significant Risk 0, Moderate Risk 7, Low Risk 15

Performance Measures

Of the 13 customer satisfaction surveys sent, only 46% 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 6 customer satisfaction returns received, the overall average score out of 55 was 49.7.

Customer Satisfaction Returns 2019-20

Category	Value
Excellent	4
Good	2
Fair	0
Poor	0
Very Poor	0

By the end of 2019-20 we had completed 94.9% of the revised Audit Plan against a target of 90%. Our progress with certain audit assignments has been impacted by the Covid-19 situation from the middle of March 2020 onwards.

Plan Progress 2019-20

Category	Value
Not Started	0
In Progress	1
Fieldwork Complete	0
Draft Report	0
Final Report	17

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 and regular on-site presence.
3. To avoid any perceived conflicts of interest, we should re-iterate/ emphasise our rules and individual responsibilities to matters concerning the impairment of our professional judgement. As we have new members of the team, this could be discussed at a future Team Meeting.
4. Ethical use of information should be emphasised at a team meeting when discussing auditor responsibilities towards security and confidentiality of information in their possession.
5. 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.
6. We should continue to promote a culture of continuous improvement which considers the needs of individuals by: • staff completing the Audit Management System (AMS) in respect of any training received, • undertaking Great Performance Conversations in accordance with the hosts requirements and • producing a Training & Development Plan.
7. 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.
8. We should ask staff to complete a Personal Development Plan and then produce a Training & Development Plan for the Team.
9. We should establish a robust process for engaging capable assistance when resource shortfalls exist (e.g. contracts for Co-sourcing, specialists service providers etc.)
10. To ensure that audit engagements are supported by appropriate tools, we should encourage Auditors greater use of CAATs (e.g. IDEA and analytical Excel functions) and consider whether it would be beneficial to record when they have been used to identify potential development opportunities.
11. Complete this self–assessment and produce a revised QAIP and Action Plan for reporting to all necessary parties.
12. To demonstrate stakeholder engagement with the process, we should ensure that the QAIP Action Plan is a standard agenda item on both Operational

Management group and at Audit Section meetings.

13. 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. In the interim we could record the development and approval of the programme of work in the AMS.

14. The Audit Together Partnership has initiated a potential peer review opportunity for all Group members to participate in. We should enquire with members of the Group whether anyone would be prepared to undertake an external review of CMAP when it is next due.

15. We should produce a revised Business Plan that demonstrates how the internal audit activity intends to add value to each organisation.

16. 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.

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

18. 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.

19. 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.