



central midlands audit partnership

Ashfield District Council – Internal Audit Annual Report 2021-22

Audit Committee: 25 July 2022

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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:

'The chief audit executive must deliver an annual 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)."

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.



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 (QAIP) 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:

'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.

Our last external quality assessment on our overall conformance with the Standards was undertaken in 2017 and it was determined that we generally conformed with each standard. Accordingly, another external quality assessment is due in 2022 and CMAP management is currently in the process of procuring a firm to undertake the review.

In November 2021, the CMAP management team undertook a self-assessment against the Standards and produced a revised QAIP which is appended at page 18 of this report. Following consultation with all members of the Audit Team, this QAIP was reported to the Partnership Board on 2 March 2022 for approval. We are committed to undertaking another self-assessment against the Standards in preparation for the forthcoming External Quality Assessment.

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.

Audit Opinion 2021-22

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.
- Reliance is placed on other assurance providers who contribute to the overall assurance framework. For example, the Local Government Association undertook a Finance Health check on the Council in December 2021. It concluded that the Council was well managed financially.
- Work has been planned and performed 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.
- The insight gained from our interactions with Senior Management and the Audit Committee.
- The degree to which recommended actions have been implemented to address our concerns over risk and control weaknesses within the Council.
- The changing risk environment within the Council has been taken into account during the 2021-22 financial year. Key features included;

Strategic Leadership – The Interim Chief Executive continued in post until July 2021, when the former Director of Place and Communities was appointed as permanent Chief Executive. The internal appointment to Chief Executive gave stability in strategic leadership and continuity of local knowledge at a time when the Council was still dealing with the effects of the pandemic. An Interim Director of Place and Communities has been in place since August 2021, with a permanent appointment due to take up the role in July 2022.

Anti-Fraud - There has been limited progress during the year in developing a corporate approach to anti-fraud and the need remains for greater operational resilience and improved capacity in identifying and dealing with suspected fraudulent activity. The Management of Fraud Risk audit made a number of recommendations to strengthen the Council's anti-fraud arrangements.

IT - The Council continues to support agile working, with colleagues working both at home and in the office. Remote access to the Council's systems is therefore business critical and this was reviewed in the Teleworking Security audit. This audit identified a number of key control weaknesses that management are in the process of addressing.

The increased global cyber security risks from the invasion of Ukraine have required the Council to ensure that it has robust online defences. The National Cyber Security Centre recommended that all organisations in the UK review and bolster their online defences. With this heightened risk in mind, we reviewed IT Key Controls specific to network security. Again, the audit identified a number of key control weaknesses that management are in the process of addressing.

Initially the Audit Plan for 2021-22 included an audit of the Council's IT Asset Inventory as Internal Audit had understood that a comprehensive inventory was now in place. However, management requested that the audit was deferred to 2022/23 as there was a body of work required to bring the Inventory up to date, including tasks to support hybrid and remote working. This work should be completed promptly as the IT Asset Inventory is a key control.

- No adverse implications for the organisation's Annual Governance Statement have been identified from any of the work that Internal Audit has undertaken in 2021-22.
- The internal audit work we have carried out during the year has demonstrated that in general there is a sound governance framework in place, risks are being managed and the controls put in place to mitigate those risks are working in practice. Where weaknesses have been identified, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

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

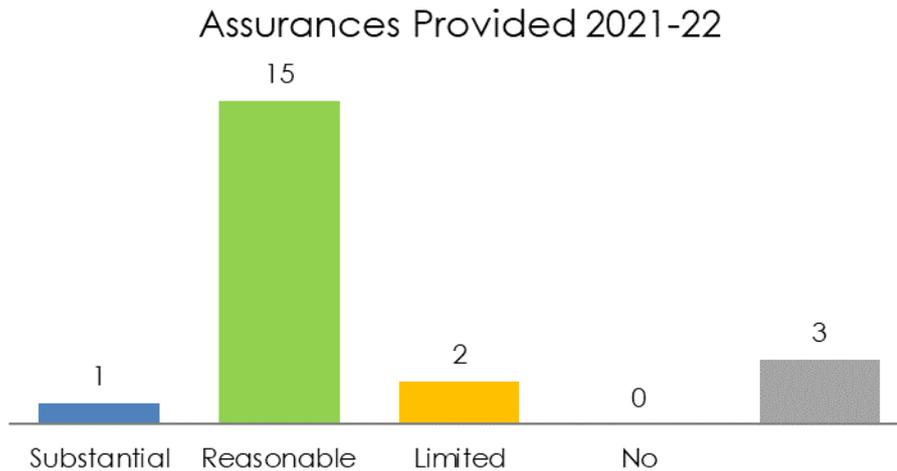
The original 2021-22 Internal Audit Plan, approved by the Audit Committee on 29 March 2021, was informed by Internal Audit's own assessment of risk and materiality in addition to consultation with Senior Management to ensure it aligned to the organisation's key risks and objectives. The Plan was amended during the year and the following audits were removed from the original approved plan; ICT Asset Inventory, People Management and the COVID contingency. Audits of IT Key Controls and Homes England Grant Certification were added.

The following tables summarise the 2021-22 Audit Plan assignments and their outcomes as well as those assignments from the 2020-21 Audit Plan which were still ongoing in 2021-22.

2021-22 Jobs	Status	% Complete	Assurance Rating
Accounting Systems 2021-22	Final Report	100%	Substantial
Corporate Credit Cards 2021-22	Final Report	100%	Reasonable
Debtors 2021-22	Final Report	100%	Reasonable
Payroll 2021-22	Final Report	100%	Reasonable
Planning	Draft Report	95%	Reasonable*
Outdoor Recreation - Sports Bookings	Final Report	100%	Limited
Selective Licensing	Final Report	100%	Reasonable
Housing Health & Safety Statutory Compliance	Final Report	100%	Reasonable
Scrutiny	Final Report	100%	Reasonable
PCI Compliance in Organisational Transformation	Final Report	100%	Reasonable
Risk Management 2021-22	Final Report	100%	Reasonable
Environmental Health	Final Report	100%	Reasonable
IT Consultancy - Office 365	Final Report	100%	N/A
IT Key Controls 2021-22	Final Report	100%	Reasonable
Anti-Fraud & Corruption	Final Report	100%	N/A
Homes England Grant Compliance	Final Report	100%	N/A

B/Fwd Jobs	Status	% Complete	Assurance Rating
Management of Fraud Risk	Final Report	100%	Limited
Delegated Decisions	Final Report	100%	Reasonable
Teleworking Security	Final Report	100%	Reasonable
People Management	Final Report	100%	Reasonable
Financial Health & Resilience	Final Report	100%	Reasonable

* Provisional assurance rating as report is yet to be finalised



Of the substantially completed assignments, 1 attracted a Substantial assurance rating; 15 attracted a Reasonable assurance rating; 2 attracted a Limited assurance rating and there were 3 where an assurance rating was not applicable due to the nature of the review. 1 assignment that has been substantially completed and included above, provisionally attracted a Reasonable assurance rating but hasn't yet been finalised.

Assurance Ratings Explained

Substantial - 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 - 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 - 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 - 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.

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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The following table seeks to summarise the extent of audit coverage provided to the Council during 2021-22 and the assurance ratings associated with each audit type of assignment.

Summary of Audit Plan 2021-22 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							
Substantial	1						1
Reasonable	4	4	5	2			15
Limited		1			1		2
No							
N/A				1	1	1	3
	5	5	5	3	2	1	21

Key Financial System audits

An important area of Internal Audit's assurance work is the review of the risks and controls associated with the Council's main financial systems. There were 5 Key Financial System audits in 2021-22 with Accounting Systems receiving a Substantial assurance rating and the other 4 receiving Reasonable assurance ratings.

System/Risk audits

One of our main roles is to review the internal control systems developed by management to mitigate operational risks and report upon the adequacy of those controls. We undertook 5 systems/risk audits in 2021-22, and the Planning audit has yet to be finalised. This has a provisional assurance rating of Reasonable. Audits of Selective Licensing, Housing Health & Safety Statutory Compliance and People Management also received a Reasonable Assurance Rating. An audit of Outdoor Recreation – Sports Bookings identified a number of weaknesses in the processes and procedures in place for the control and administration of outdoor recreation and attracted a Limited assurance rating.

Governance/ Ethics audits

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled. Internal Audit reviews specific areas of the governance framework each year. In 2021-22 we finalised 5 Governance/ethics audits with all attracting a Reasonable assurance rating. One of these audits was Risk Management, which we review regularly as it is a vital part of the Council's control framework. We focused on the Risk Management structure and accountability framework, to ensure that it complies with good practice, and on risk registers.

IT Audits

One key area of work each year is our IT audit coverage. This work is important as it provides assurance around the Council's mitigating actions to reduce the threat of cyber-attacks and keep data secure. We have continued our practice of notifying IT Management of any data security issues as they arise rather than delaying until the formal reporting stage. This has added value to the audit process in that potential

data security issues can be mitigated in a timely manner. We then follow the mitigations through to the implementation stage.

During the year we have finalised IT audits of Teleworking Security, IT Key Controls and provided consultancy advice on Office 365. Both the Teleworking Security audit and the IT Key Controls audit highlighted several key weaknesses and both received a Reasonable assurance rating. The Teleworking Security audit focused on the security configuration and management of the Council's remote access systems, which became business critical to support home working requirements enforced due to national lockdown measures.

The IT Key Controls audit focused on key controls specific to network security. It also included a follow up review of control weaknesses identified and reported in previous IT Audits for the Council. The weaknesses identified included concerns that sensitive data was available on all user accessible file shares.

We will continue to focus on IT as we are still identifying oversights that could lead to data breach or privacy violations.

Anti-Fraud Work

Internal Audit has an important role to play in ensuring that management has effective systems in place to manage the risk of fraud within the Council. Internal audit's role includes promoting counter-fraud best practice, testing and monitoring systems through probity work and advising on change where it is needed. Internal Audit also may be involved in the investigation of suspected internal fraud, theft or major irregularity.

During 2021-22 we finalised the Management of Fraud Risk audit which reviewed how the Council's risk of fraud was managed. This piece of work attracted a Limited assurance rating and recognised the Council's lack of capacity to deter and detect fraud.

Internal Audit contributed to the development of the Council's anti-fraud and corruption capabilities by providing advice to the Council's Anti-Fraud working group.

Procurement/Contract

Internal Audit were requested to carry out a compliance audit of the capital grant from Homes England. We undertook the role of independent auditor and carried out the audit of the Stoney Street Affordable Homes scheme submitting findings to Homes England. An assurance rating was not applicable due to the nature of the review. Homes England notified the Council of the weaknesses identified and these were reported to Audit Committee on 28 March 2022.

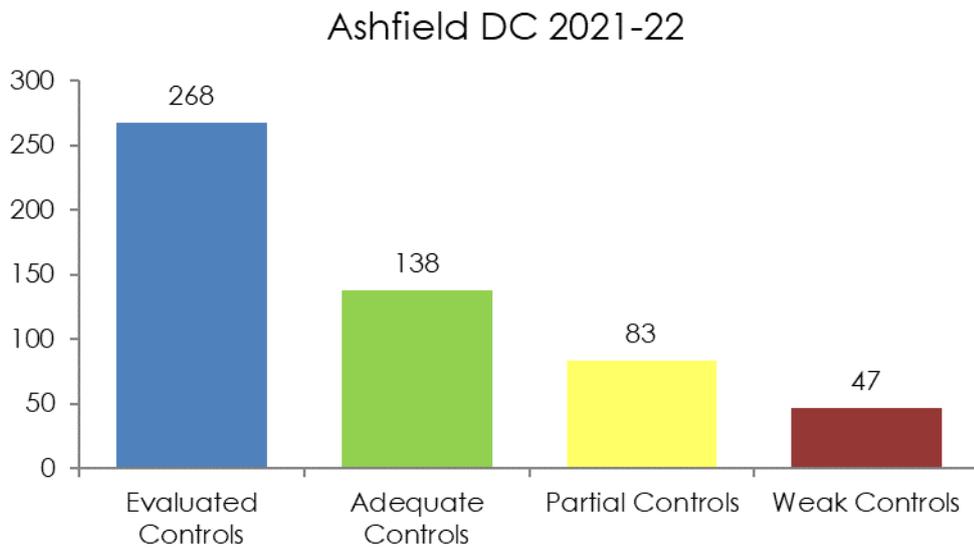
Audit Assignments 2021-22

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Accounting Systems 2021-22	Substantial				3	0%
Corporate Credit Cards 2021-22	Reasonable				5	0%
Debtors 2021-22	Reasonable			1	4	80%
Payroll 2021-22	Reasonable			3	5	88%
Financial Health and Resilience	Reasonable			1	3	100%
Planning	Reasonable*					n/a
Outdoor Recreation - Sports Bookings	Limited			3	8	18%
Selective Licensing	Reasonable			3	3	33%
Housing Health & Safety Statutory Compliance	Reasonable			4	1	60%
People Management	Reasonable				9	33%
Scrutiny	Reasonable			1	3	0%
PCI Compliance in Organisational Transformation	Reasonable			2	3	60%
Risk Management 2021-22	Reasonable			2	10	75%
Environmental Health	Reasonable			1	5	50%
Delegated Decisions	Reasonable			1	5	50%
IT Consultancy - Office 365	N/A					n/a
IT Key Controls 2021-22	Reasonable			3	5	13%
Teleworking Security	Reasonable			2	5	43%
Anti-Fraud & Corruption	N/A					n/a
Management of Fraud Risk	Limited			2	12	14%
Homes England Grant Compliance	N/A					n/a
TOTALS				29	89	42%

* Provisional assurance rating as report is yet to be finalised

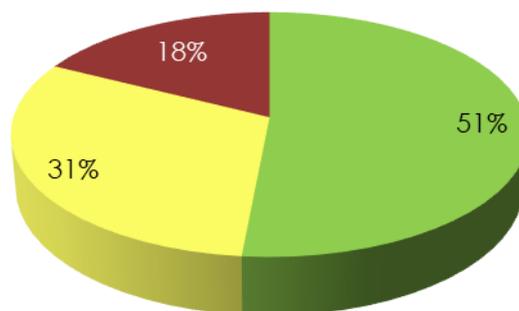
Internal Controls Examined

For those audits finalised during 2021-22, we established the following information about the controls examined:



Ashfield DC

- Adequate Controls
- Partial Controls
- Weak Controls



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Recommendations Made

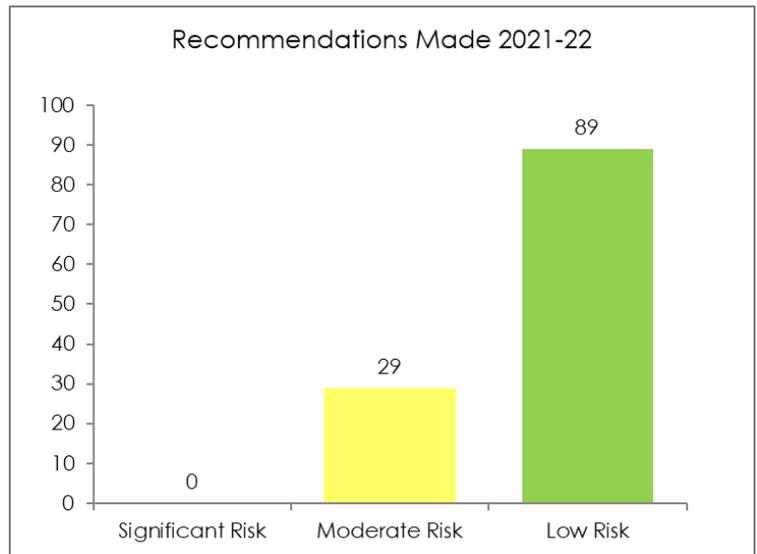
The control weaknesses identified above resulted in 118 recommendations which suggested actions for control improvements. The following table and charts show where the recommendations came from, and the current status of all recommendations made for 2021-22 audits:

Audit Assignments Completed in Period	Type of Review	Recommendations Status			
		Total Closed	Action Due	Being Implemented	Future Action
Accounting Systems 2021-22	Key Financial System				3
Corporate Credit Cards 2021-22	Key Financial System		1		4
Debtors 2021-22	Key Financial System	4	1		
Payroll 2021-22	Key Financial System	7			1
Financial Health and Resilience	Key Financial System	4			
Planning *	System/Risk				
Outdoor Recreation - Sports Bookings	System/Risk	2			9
Selective Licensing	System/Risk	2		4	
Housing Health & Safety Statutory Compliance	System/Risk	3	1		1
People Management	System/Risk	3		6	
Scrutiny	Governance/Ethics		1		3
PCI Compliance in Organisational Transformation	Governance/Ethics	3		2	
Risk Management 2021-22	Governance/Ethics	9		2	1
Environmental Health	Governance/Ethics	3	1	1	1
Delegated Decisions	Governance/Ethics	3	1	2	
IT Consultancy - Office 365	IT Audit				
IT Key Controls 2021-22	IT Audit	1	4		3
Teleworking Security	IT Audit	3		4	
Anti-Fraud & Corruption	Anti-Fraud				
Management of Fraud Risk	Anti-Fraud	2		12	
Homes England Grant Compliance	Procurement/Contract				
TOTALS		49	10	33	26

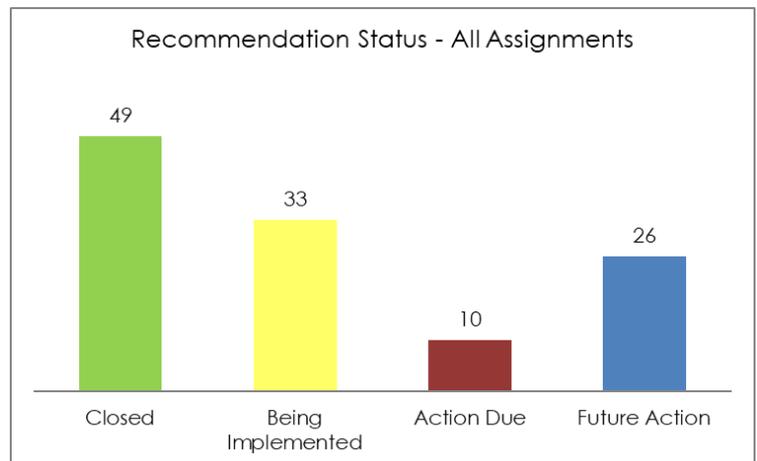
* This assignment is not yet complete, therefore recommendations have yet to be made.

Recommendations Summary

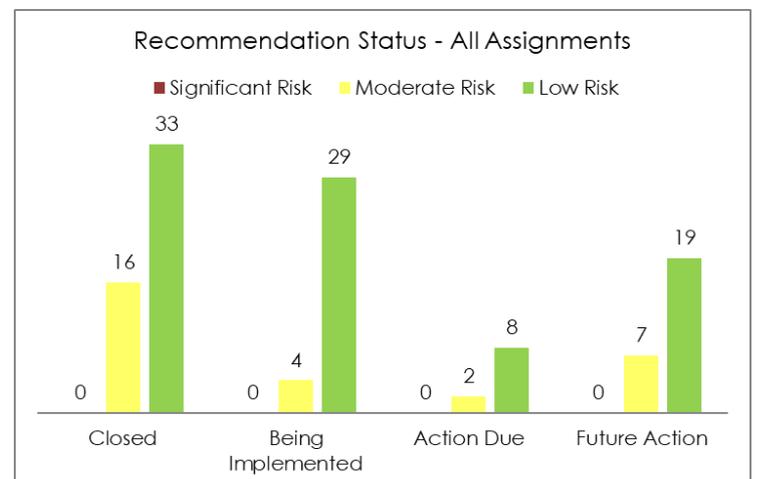
These 118 recommendations have resulted from the 20 audit assignments finalised either during 2021-22 or finalised in the time following the year-end. Approximately 75% of all recommendations made were considered to present a low risk, 25% a moderate risk and 0% a significant risk.



Of the 118 recommendations made, 42% have been closed, 28% have passed their original action date and a revised target has been set, 8% 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.



16 of the moderate risk recommendations raised have been addressed to our satisfaction, as have 33 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.

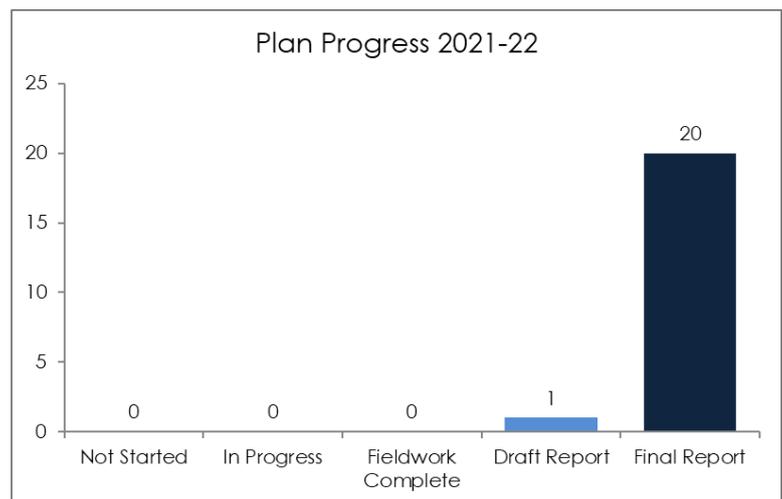


Performance Measures

11 customer satisfaction surveys 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 11 customer satisfaction returns received, the overall average score out of 55 was 51.



As at 31 March 2022 we estimate that we had completed 94% of the revised Audit Plan against a target of 90%. The chart shows the current progress on 2021-22 audits as at the date of this report.



QAIP – Improvement Plan

ACTIONS
<p>1. 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 combined with a regular on-site presence. Note under the current circumstances (Covid pandemic) this needs to be through regular contact via virtual meetings.</p>
<p>2. 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. We should continue to promote a culture of continuous improvement which considers the needs of individuals by:</p> <ul style="list-style-type: none"> • staff completing the AMS in respect of any training received, • undertaking GPCs in accordance with the hosts requirements and • producing a Training & Development Plan.
<p>3. We should ask staff to complete a Personal Development Plan and then produce a Training & Development Plan for the Team.</p>
<p>4. We should aim to increase our knowledge around the use of data analytics and other CAATs and identify the benefits it could bring to the audit processes.</p> <ul style="list-style-type: none"> • To ensure that audit engagements are supported by appropriate tools, we need to develop a strategy for the use of data analytics.
<p>5. To demonstrate stakeholder engagement with the process, we should ensure that the QAIP Action Plan is a standard agenda item on both the CMAP Operational Group and at Audit Section meetings.</p>
<p>6. To demonstrate each work programme has been appropriately approved, we should seek earlier formal sign off of the control evaluation so we can better demonstrate scrutiny and approval of coverage by audit management.</p>
<p>7. CMAP needs to explore potential external assessors that can deliver the appropriate level of validation required and that understand the partnership ethos/approach.</p>
<p>8. 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 an audit assurance framework for each organisation.</p>
<p>9. We should ensure that our Audit Manual is complete, up-to-date, readily available and used by all audit staff.</p>
<p>10. 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.</p>
<p>11. 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.</p>
<p>12. To review all CMAP reports to assess compliance with the Web Content Accessibility Guidelines (WCAG).</p>