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Governance and Resources Committee

14th July 2022

Report of Director of Resources

INTERNAL AUDIT ANNUAL REPORT 2021/22

PURPOSE OF REPORT

The purpose of this report is to: -

- Present a summary of the internal audit work undertaken during 2021/22 from which the opinion on governance, risk and internal control is derived.
- Provide an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control arrangements including any qualifications to that opinion.
- Draw attention to any issues that need to be considered for inclusion in the Annual Governance Statement.
- Compare work undertaken with that which was planned and summarise performance.
- Comment on compliance with the Public Sector Internal Audit Standards (PSIAS) and Code of Ethics.
- Comment on the results of the internal quality assurance programme.
- Confirm the organisational independence of internal audit
- Review the performance of Internal Audit against the current Internal Audit Charter.

RECOMMENDATION

That the Internal Audit Annual Report for 2021/22 be accepted.

WARDS AFFECTED

None

STRATEGIC LINK

Audit reviews help to ensure that the council's resources and priorities are focused on achieving the objectives within the council plan and that there are appropriate governance, risk and control arrangements in place.

1 BACKGROUND

- 1.1 The Public Sector Internal Audit Standards require that the Head of the Internal Audit Consortium delivers an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

2 REPORT

- 2.1 The 2021/22 Operational Audit Plan was originally approved by the Governance and Resources Committee on the 11th March 2021. In November 2021 the Committee approved a revised plan with a reduced number of days. The number of audit days were reduced due to a failure to recruit a Senior Auditor and the continued redeployment of the current Senior Auditor to business grants work. Subsequently an Auditor was appointed. For operational reasons a few of the areas in the revised plan were supplemented by alternative areas e.g. Section 106 agreements was reviewed, rather than expenses and allowances. The full picture can be seen at Appendix 2.
- 2.2 Throughout 2021/2022 the Senior Internal Audit has continued to have a large involvement in Business Grants and this has had a detrimental impact on the completion of the Operational Audit Plan. In order to be able to complete sufficient work to be able to provide an unlimited opinion, work on the 21/22 plan has continued into June 2022. This will have a knock on effect on completion of the 2022/23 approved plan.
- 2.3 In June 2022 both the Senior Auditor and Auditor have tendered their resignation. The Senior Auditor post has been advertised. Recruitment and retention of staff within internal audit is currently a major issue within the sector. The Senior Auditor post has been advertised with a 9% market supplement to try to attract suitable applicants.
- 2.4 Appendix 1 details the audit reports issued in respect of audits included in the 2021/22 internal audit plan. The appendix shows for each report the overall assurance level provided on the reliability of the internal controls and the assurance level given at the last audit. The report opinions can be summarised as follows:

	Number of reports 2019/20	Number of reports 2020/21	Number of Reports 2021/22
Substantial	9	3	6
Reasonable	9	2	4
Limited	1	1	1
Inadequate	0	0	0
Total	19	6	11

- 2.5 A definition of the above assurance levels is shown at the bottom of Appendix 1.

2.6 No fraud was identified.

2.7 The following table summarises the performance indicators for the Internal Audit Consortium as detailed in the Internal Audit Service Plan:

Description	2021/22		2022/23
	Plan	Actual	Plan
Percentage Plan Completed	75%	38% against original 94% against revised	75%
Number of Complaints	0	0	0
Completion of Annual Report	June 2022	June 2022	June 2023
Customer Satisfaction Score	85%	97%	85%
Net Cost per audit day	£310	£210	£228
Number/proportion of audits completed within time allocation	80%*	*	*
% Recommendations Implemented where due date has passed	80%*	*	*

* Not measured as Covid – 19 still had a major impact

OPINION ON THE ADEQUACY AND EFFECTIVENESS OF GOVERNANCE, RISK AND CONTROL ARRANGEMENTS

2.8 The Head of the Internal Audit Consortium is responsible for the delivery of an annual audit opinion that can be used by the council to inform its governance system. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

2.9 38% of the original internal audit plan has been completed and 94% of the revised internal audit plan. In order to be able to provide an opinion in addition to the work of internal audit reliance has been placed on other assurances as well. Those other assurances include previous years audit work, PSN compliance, the risk management group and compliance with the Code of Corporate Governance.

2.10 11 audit reports were issued during the year and 91% of these received substantial or reasonable assurance demonstrating that there are effective systems of governance, risk management and control in place. However, the Limited assurance report in respect of the waste collection service has raised governance issues in this area but also wider concerns in terms of officer capacity.

2.11 Covid-19 has meant that officers have not only had to perform their usual jobs but have taken on additional responsibilities. The Corporate Leadership Team has been spread thinly and this, coupled with the sector wide problem of retaining staff, has had an impact on some governance arrangements. An example of this is in relation to the waste management contract.

2.12 Although internal audit have not specifically reviewed the area of procurement this year, they are aware that concerns have been raised in respect of compliance with Financial Regulations and Contract Standing Orders relating to procurement and contract management.

2.13 Other important areas where internal audit recommendations remain outstanding are in relation to health and safety, asset management and data protection. The majority of recommendations have been implemented.

2.14 I am satisfied that sufficient assurance work has been carried out (albeit the bare minimum) to allow me to form a reasonable conclusion on the adequacy and effectiveness of Derbyshire Dales District Council's governance, risk and control arrangements.

2.15 The exceptions to this are in respect of:

- the governance of the waste collection service – this is as a result of work undertaken by internal audit and by a consultant and was discussed at Council in February 2022.
- procurement and contract management - there are concerns in respect of compliance with Financial Regulations and Procedures and Contract Standing Orders.
- the arrangements for ensuring that systems are in place to meet grant conditions the late implementation of some internal audit recommendations (mostly implemented).

ISSUES FOR INCLUSION IN THE ANNUAL GOVERNANCE STATEMENT

2.16 The internal control issues arising detailed above will be considered by the Director of Resources during the preparation of the Annual Governance Statement.

COMPARISON OF PLANNED WORK TO ACTUAL WORK UNDERTAKEN

2.17 Appendix 2 provides full details of the audits completed and those deferred in respect (although the majority of recommendations have been implemented) of the 2021/22 internal audit plan.

COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS / CODE OF ETHICS AND OTHER QUALITY ASSURANCE RESULTS

2.18 Quality control procedures have been established within the Internal Audit Section and these are documented in the Quality and Assurance Improvement Programme at Appendix 3. These procedures are designed to ensure compliance with the PSIAS and Code of Ethics.

ORGANISATIONAL INDEPENDENCE

2.18 It can be confirmed that the internal audit activity is organisationally independent. Internal audit reports directly to the Director of Resources but has a direct and

unrestricted access to the Senior Management Team and the Governance and Resources Committee.

REVIEW OF PERFORMANCE OF THE INTERNAL AUDIT SECTION AGAINST THE CURRENT INTERNAL AUDIT CHARTER

- 2.19 The Audit Charter was last reported to and approved by the Governance and Resources Committee in September 2021.
- 2.20 Based on the information provided in this report on the completion of the 2021/22 internal audit plan, it is considered that the requirements of the Charter were met during the year.

3 RISK ASSESSMENT

3.1 Legal

Internal Audit provides a valuable service in reviewing procedures and processes against high standards of governance. Recommendations arising from specific reports help the organisation to learn, improve and mitigate risk. There are no specific legal considerations arising from this report.

3.2 Financial

There are no financial considerations arising from the report.

3.3 Corporate

Internal audit reviews help to ensure that processes and controls are operating effectively thereby contributing to ensuring that value for money is obtained. Regular audit reviews help to ensure that risk is managed appropriately. Internal audit makes recommendations to reduce the level of risk and improve the control environment.

4 OTHER CONSIDERATIONS

- 4.1 In preparing this report, the relevance of the following factors has also been considered: prevention of crime and disorder, equalities, environmental, climate change, health, human rights, personnel and property.
- 4.2 Climate change: Recommendations are for information only, no climate change impact assessment required.

5 CONTACT INFORMATION

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6 BACKGROUND PAPERS

6.1 None

7 ATTACHMENTS

7.1 Appendix 1 Internal Audit Reports Issued 2021/22

7.2 Appendix 2 Comparison of planned work to actual work undertaken

7.3 Appendix 3 Internal Audit Quality Assurance Programme