

Eastern Internal Audit Services



NORTH NORFOLK DISTRICT COUNCIL

Annual Report and Opinion 2019/20

Responsible Officer: Emma Hodds – Head of Internal Audit for North Norfolk DC

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1. INTRODUCTION

- 1.1 The Accounts and Audit Regulations 2015 require that “a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.
- 1.2 Those standards – the Public Sector Internal Audit Standards - require the Chief Audit Executive to provide a written report to those charged with governance (known in this context as the Governance, Risk and Audit Committee) to support the Annual Governance Statement (AGS). This report must set out:
- The opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control during 2019/20, together with reasons if the opinion is unfavourable;
 - A summary of the internal audit work carried from which the opinion is derived, the follow up of management action taken to ensure implementation of agreed action as at financial year end and any reliance placed upon third party assurances;
 - Any issues that are deemed particularly relevant to the Annual Governance Statement (AGS);
 - The Annual Review of the Effectiveness of Internal Audit, which includes; the level of compliance with the PSIAS and the results of any quality assurance and improvement programme, the outcomes of the performance indicators and the degree of compliance with CIPFA’s Statement on the Role of the Head of Internal Audit.
- 1.3 When considering this report, the statements made therein should be viewed as key items which need to be used to inform the organisation’s Annual Governance Statement, but there are also a number of other important sources to which the Governance, Risk and Audit Committee and statutory officers of the Council should be looking to gain assurance. Moreover, in the course of developing overarching audit opinions for the authority, it should be noted that the assurances provided here, can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes subject to internal audit review. The annual opinion is thus subject to inherent limitations (covering both the control environment and the assurance over controls) and these are examined more fully at **Appendix 3**.

2. ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

2.1 Roles and responsibilities

- The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.
- The AGS is an annual statement by the Leader of the Council and the Chief Executive that records and publishes the Council’s governance arrangements.
- An annual opinion is required on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control, based upon and limited to the audit work performed during the year.

This is achieved through the delivery of the risk based Annual Internal Audit Plan discussed and approved with the Corporate Leadership Team and key stakeholders and then approved by the Governance, Risk and Audit Committee at its meeting on 26 March 2019. Any justifiable amendments that are requested during the year are discussed and agreed with senior management, and reported through to Committee. This opinion does not imply that internal

audit has reviewed all risks and assurances, but it is one component to be taken into account during the preparation of the AGS.

The Governance, Risk and Audit Committee should consider this opinion, together with any assurances from management, its own knowledge of the Council and any assurances received throughout the year from other review bodies such as the external auditor.

2.2 The opinion itself

The overall opinion in relation to the framework of governance, risk management and control at North Norfolk District Council is **reasonable**.

It is encouraging to note that of the 16 assurance audits completed within the year, all resulted in a positive assurance grading with no urgent priority recommendations raised.

It is also important to note that substantial assurance was concluded in the following areas:

- Coastal Management
- Accountancy Services
- Leisure
- Key Controls and assurance

A total of four reports were issued to management in draft by the end of the financial year, however due to the impact of the Coronavirus Pandemic, it was not possible to finalise them in time for June 2020 Committee meeting. These reports were Risk Management, Key Controls, Property Services and Business Continuity. The Executive Summary of the draft report with overall gradings indicated has been provided to the Committee within the progress report. Therefore, this does not impede our ability to consider these for the opinion given.

In providing the opinion the Council's risk management framework and supporting processes, the relative materiality of the issues arising from the internal audit work during the year and management's progress in addressing any control weaknesses identified therefrom have been taken into account.

The opinion has been discussed with the Section 151 Officer prior to publication.

3. **AUDIT WORK UNDERTAKEN DURING THE YEAR**

3.1 **Appendix 1** records the internal audit work delivered during the year on which the opinion is based. In addition, **Appendix 2** is attached which shows the assurances provided over previous financial years to provide an overall picture of the control environment.

3.2 Internal audit work is divided into 4 broad categories;

- Annual opinion audits;
- Fundamental financial systems that underpin the Council's financial processing and reporting;
- Service area audits identified as worthy of review by the risk assessment processes within internal audit;
- Significant computer systems which provide the capability to administer and control the Council's main activities.

3.3 **Summary of the internal audit work**

The work undertaken by Eastern Internal Audit Services (TIAA Ltd) in 2019/20 has covered a wide range of services and has resulted in 16 assurance opinion reports being completed. All the reports issued have been given a positive assurance grading.

Internal Audit has also provided advice and guidance in a position statement in the area of Project Management and at request of the Committee the Sheringham Leisure and Egmere projects. The conclusions were reported to management and the Committee in a Position Statement, providing suggested actions and improvements.

As mentioned in section 2.2. due to the impact of the Coronavirus Pandemic we have not been able to finalise the following reports in time for this meeting. The Executive Summaries have however been provided to the Committee within the Internal Audit progress report and overall gradings indicated.

- Risk Management
- Key Controls and Assurance
- Property Services
- Business Continuity

The Executive Summary of all reports have been presented to the Governance Risk and Audit Committee, ensuring open and transparent reporting and enabling the Committee to review key service area controls and the conclusions reached.

In total 192 days were delivered from 182 days originally planned. The additional 10 days were delivered at the request of the Committee resulting in position statement reviews of the Sheringham Leisure and Egmere projects.

3.4 **Follow up of management action**

In relation to the follow up of management actions to ensure that they have been effectively implemented the position at year end is that of the 44 recommendations agreed by TIAA Ltd in 2019/20 a total of nine have been implemented. A total of 12 needs attention recommendations are overdue and 23 are within deadline.

A total of 40 recommendations were raised in 2018/19 and 33 have now been completed. A total of seven recommendations (one important and six needs attention) remain outstanding.

A total of 50 recommendations were raised in 2017/18 and 44 have now been complete. Six recommendations remain outstanding (5 important, 1 needs attention).

The important recommendation from 2010/11 Development Management, Building Control and Land Charges remains outstanding relating to Section 106 agreements following our review of this area in 2019/20.

3.5 **Issues for inclusion in the Annual Governance Statement**

Internal Audit work has not identified any weaknesses that are significant enough for disclosure within the Annual Governance Statement.

4. **THIRD PARTY ASSURANCES**

- 4.1 In arriving at the overall opinion reliance has not been placed on any third-party assurances.

5. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

5.1 Quality Assurance and Improvement Programme (QAIP)

5.1.1 Internal Assessment

A checklist for conformance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note has been completed for 2019/20. This covers; the Definition of Internal Auditing, the Code of Ethics and the Standards themselves.

The Attribute Standards address the characteristics of organisations and parties performing Internal Audit activities, in particular; Purpose, Authority and Responsibility, Independence and Objectivity, Proficiency and Due Professional Care, and Quality Assurance and Improvement Programme.

The Performance Standards describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated, in particular; Managing the Internal Audit Activity, Nature of Work, Engagement Planning, Performing the Engagement, Communicating Results, Monitoring Progress and Communicating the Acceptance of Risks.

On conclusion of completion of the checklist conformance has been ascertained in relation to the Definition of Internal Auditing, the Code of Ethics and the Performance Standards.

The detailed internal assessment checklist has been forwarded to the Section 151 Officer for independent scrutiny and verification.

5.1.2 External Assessment

In relation to the Attribute Standards it is recognised that to achieve full conformance an external assessment is needed. This is required to be completed every five years, with the first review having been completed in January 2017.

The external assessment was undertaken by the Institute of Internal Auditors and it has concluded that ***“the internal audit service conforms to the professional standards and the work has been performed in accordance with the Internal Professional Practices Framework”***. Thus, confirming conformance to the required standards.

The external assessment report has previously been provided to the Section 151 Officer and the Committee.

Two improvement points were raised in relation to the assessment. The first relates to updating and documenting current risks relating to the delivery of the TIAA contract. The second relates to the Internal Audit Manager carrying out yearly deep dive assurance exercises on a sample of TIAA audit files to give assurance that audit procedures are being followed in line with the PSIAS. These actions have now been completed.

5.2 Performance Indicator outcomes

- 5.2.1 The Internal Audit Service is benchmarked against a number of performance indicators as agreed by the Governance Audit and Risk Committee. Actual performance against these targets is outlined below and within the table overleaf:
- 5.2.2 It is encouraging to note that 9 out of a possible 11 performance measures have been achieved, with four of these exceeding targets. Client feedback has been provided which has been positive recognising the professional service provided and the value that internal audit has brought to the Council.

In relation to performance measure four, one performance report was received outside of the 15 working day deadline, however this was received the next working day and therefore represents an isolated incident.

In relation to performance measure three, the Leisure report was issued to management in draft 2 working days after the agreed deadline. In addition, as mentioned earlier within this report for reasons outside of the control of the Internal Audit team a total of four internal audit remain in draft at the time of writing this report.

All internal audit reviews assigned to TIAA were issued to management in draft by 20 April 2020.

Area / Indicator	Frequency	Target	Actual	Comments
<u>Audit Committee / Senior Management</u>				
1. Audit Committee Satisfaction – measured annually	Annual	Adequate	Good	Exceeded
2. Chief Finance Officer Satisfaction – measured quarterly	Annual	Good	Good	Achieved
<u>Internal Audit Process</u>				
3. Each quarters audits completed to draft report within 10 working days of the end of the quarter	Quarterly	100%	94%	Not achieved. 1/16 reports outside of deadline.
4. Quarterly assurance reports to the Contract Manager within 15 working days of the end of each quarter	Quarterly	100%	75%	Not achieved - One quarterly report received 1 working day after the deadline.
5. An audit file supporting each review and showing clear evidence of quality control review shall be completed prior to the issue of the draft report (a sample of these will be subject to quality review by the Contract Manager)		100%	100%	Achieved
6. Compliance with Public Sector Internal Audit Standards		Generally conforms	Generally conforms	Achieved
7. Respond to the Contract Manager within 3 working days where unsatisfactory feedback has been received.		100%	100%	Achieved
<u>Clients</u>				
8. Average feedback score received from key clients (auditees)		Adequate	Good	Exceeded, 6 responses received.
9. Percentage of recommendations accepted by management		90%	100%	Exceeds
<u>Innovations and Capabilities</u>				
10. Percentage of qualified (including experienced) staff working on the contract each quarter		60%	100%	Exceeds
11. Number of training hours per member of staff completed per quarter		1 day	1 day	Achieved

5.3 Effectiveness of the Head of Internal Audit (HIA) arrangements as measured against the CIPFA Role of the HIA

5.3.1 This Statement sets out the 5 principles that define the core activities and behaviours that apply to the role of the Head of Internal Audit, and the organisational arrangements to support them. The Principles are:

- Champion best practice in governance, objectively assessing the adequacy of governance and management of risks;
- Give an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- Undertake regular and open engagement across the Authority, particularly with the Management Team and the Audit Committee;
- Lead and direct an Internal Audit Service that is resourced to be fit for purpose; and
- Head of Internal Audit to be professionally qualified and suitably experienced.

Completion of the checklist confirms full compliance with the CIPFA guidance on the Role of the Head of Internal Audit in relation to the 5 principles set out within.

The detailed checklist has been forwarded to Section 151 Officer for independent scrutiny and verification.

APPENDIX1 – AUDIT WORK UNDERTAKEN DURING 2019/20

Audit Area	Assurance	No of Recs	Implemented	P1 OS	P2 OS	P3 OS	Not yet due
Project Management	Position Statement						
Car Parking	Reasonable	6	6	0	0	0	0
Coastal Management	Substantial	0	0	0	0	0	0
Section 106 Agreements	Reasonable	5	0	0	0	0	5
Accountancy Services	Substantial	3	0	0	0	3	0
Accounts Receivable	Reasonable	3	2	0	0	1	0
Income	Reasonable	5	0	0	0	5	0
Planning Application and Development Management	Reasonable	5	0	0	0	0	5
Sheringham Leisure Centre	Position Statement						
Egmore	Position Statement						
Leisure	Substantial	1					1
Risk Management (DRAFT)	Reasonable	2					2
Key Controls and Assurance (DRAFT)	Substantial	1					1
Procurement	Reasonable	3					3
Property Services (DRAFT)	Reasonable	7					7
Affordable Housing and Housing Enabling	Reasonable	1	0	0	0	0	1
IT Audits							
Business Continuity (DRAFT)	Reasonable	6					6
Cyber Security	Reasonable	4	1	0	0	1	2
GIS Application	Reasonable	8	0	0	0	2	6
Totals		60	9	0	0	12	39

Assurance level definitions		Number
Substantial Assurance	Based upon the issues identified there is a robust series of suitably designed controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our audit review were being consistently applied.	4
Reasonable Assurance	Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisations management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.	12
Limited Assurance	Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.	0
No Assurance	Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.	0

Urgent – Priority 1	Fundamental control issue on which action to implement should be taken within 1 month.
Important Priority 2	Control issue on which action to implement should be taken within 3 months.
Needs Attention – Priority 3	Control issue on which action to implement should be taken within 6 months.

APPENDIX 2 ASSURANCE CHART

	Current Contract				
	2015-16	2016-17	2017-18	2018-19	2019-20
Annual Opinion and Governance Audits					
Corporate Governance and Risk Management	Reasonable				
Corporate Governance		Reasonable		Substantial	
Risk Management			Substantial		Reasonable
Digital Transformation				Substantial	
Key Controls and Assurance	Reasonable	Substantial	Reasonable	Substantial	Substantial
Project Management Framework					Position Statement
Fundamental Financial Systems					
Accounts Receivable	Reasonable		Reasonable		Reasonable
Income	Reasonable		Substantial		Reasonable
Accountancy Services	Reasonable		Substantial		Substantial
Local Council Tax Support and Housing Benefits		Substantial		Substantial	
Council Tax / NNDR		Substantial		Substantial	
Accounts Payable		Reasonable		Reasonable	
Payroll / HR		Reasonable		Reasonable	
Cross Authority Review - Accounts Payable	n/a				
Cross Authority Review - Accounts Receivable		n/a			
Cross Authority Review - Payroll and HR			n/a		
Service Area Audits					
Procurement			Reasonable		Reasonable
Economic Growth					
Coastal Management					Substantial
Housing Strategy and Affordable Housing	Reasonable				Reasonable
Private Sector Housing and Disabled Facilities Grants		Reasonable			
Localism and Communities					
Homelessness and Housing Options	Reasonable			Reasonable	

	Current Contract				
	2015-16	2016-17	2017-18	2018-19	2019-20
Development Management, Planning, s106 Agreements, Community Infrastructure Levy and Land Charges					Reasonable
Building Control			Substantial		
Land Charges			Reasonable		
Development Management			Reasonable		
Waste Management	Reasonable		Reasonable		
Environmental Health		Postponed to 2017-18	Reasonable	Reasonable	
Business Continuity		Reasonable			Reasonable
Sports Halls/Centres					
Leisure and Pier Pavilion	Reasonable				Substantial
Property Services		Substantial			Reasonable
Parks and Open Spaces	Reasonable				
Car Parking and Markets					
Car Parking	Reasonable		Reasonable		Reasonable
Markets		Substantial			
Beach Huts			Substantial		
Elections / Electoral Registration				Substantial	
Performance Management, Corporate Policy and Business Planning, inc Annual Action Plans			Substantial		
Democratic Services		Reasonable			
Pier Pavillion				Reasonable	
Legal Services, Data Protection, Freedom of Information		See CG			
IT Audits					
Document Imaging and Workflow Application - Civica - Revenues and Benefits					
IT Security, Procurement and End User Controls					

	Current Contract				
	2015-16	2016-17	2017-18	2018-19	2019-20
Revenues and Benefits Application			Substantial		
Network Infrastructure				Reasonable	
Network Security				Reasonable	
Virus Protection / Spyware					
Firewalls					
Disaster Recovery	Reasonable		Reasonable		Reasonable
Software Licensing	Reasonable				
Register of Electors	Reasonable				
Cash Receipting Application	Reasonable				
Social Media		Reasonable			
e-financials Application		Reasonable			
Share Point		n/a			
Cyber Security					Reasonable
IT Hardware Asset Disposal		Limited			
Business Support Arrangements				Position Statement	
CIS Application					Reasonable
Contact Management System			Reasonable		

APPENDIX 3 – LIMITATIONS AND RESPONSIBILITIES

Limitations inherent to the Internal Auditor's work

The Internal Audit Annual Report has been prepared and TIAA Ltd (the Internal Audit Services contractor) were engaged to undertake the agreed programme of work as approved by management and the Audit Committee, subject to the limitations outlined below.

Opinions

The opinions expressed are based solely on the work undertaken in delivering the approved 2019/20 Annual Internal Audit Plan. The work addressed the risks and control objectives agreed for each individual planned assignment as set out in the corresponding audit planning memorandums (terms of reference) and reports.

Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve corporate/service policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness. Internal control systems essentially rely on an ongoing process of identifying and prioritising the risks to the achievement of the organisation's policies, aims and objectives, evaluating the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. That said, internal control systems, no matter how well they have been constructed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

Internal Audit's assessment of controls relating North Norfolk District Council is for the year ended 31 March 2020. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in the operating environment, law, regulation or other matters; or,
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

The Head of Internal Audit, has sought to plan Internal Audit work, so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, additional work will then be carried out which is directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected and TIAA's examinations as the Council's internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.