

East Devon District Council

Internal Audit Annual Opinion Report 2020/21

Internal Audit Annual Opinion – 2020/21: 'At a Glance'

Annual Opinion



There is generally a 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.

The Headlines

	No Significant Risk identified in year after testing the controls in place.
	24 reviews delivered as part of the 2020/21 Internal Audit Plan. Includes assurance, advisory and follow up reviews (23 final, 1 in progress).
	Internal Audit staff assisted with the COVID response. COVID 19 Grant Spotlight Checking for all grants, support with post-payment checking.
	Range of innovations and enhancements made to our internal audit process throughout the year. One-page audit report, introduction of Agile auditing and planning.

Internal Audit Assurance Opinions 2020/21 *

Substantial	2
Reasonable	8
Limited	3
No Assurance	0
Advisory / Follow Up	10

Internal Audit Agreed Actions 2020/21*

Priority 1	0
Priority 2	25
Priority 3	31
Total	56

*Final Reports only

Executive Summary

Internal Audit provides an independent and objective opinion on the effectiveness of the Authority's risk management, control and governance processes.



Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- An opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
 - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
 - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
 - the effectiveness of risk management processes; and
 - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- Disclose any qualifications to that opinion, together with the reasons for the qualification.
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies.
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria.
- Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

Executive Summary

Three Lines Model

To ensure the effectiveness of an organisation's risk management framework, the Audit and Governance Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- the first line – functions that own and manage risk.
- the second line – functions that oversee or specialise in risk management, compliance.
- the third line – functions that provide independent assurance.

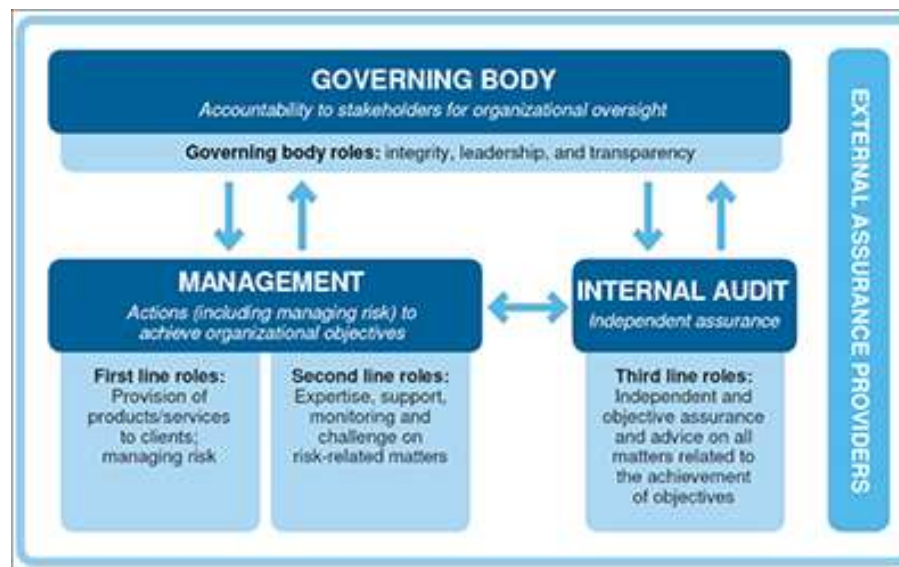


Background

The Internal Audit service for East Devon District Council is provided by SWAP Internal Audit Services. The team's work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. This report summarises the activity of the Internal Audit team for the 2020/21 year.

The position of Internal Audit within an organisation's governance framework is best summarised in the Three Lines model shown below.



Internal Audit Annual Opinion 2020/21

The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

On the balance of our 2020/21 audit work for East Devon District Council, I am able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.

Just as in more normal times, audit work has been planned to ensure that sufficient assurance will be available to support the annual opinion. The professional requirements of PSIAS have remained unchanged and in line with these, new audit priorities to cover the risks from the impact of COVID-19 have been agreed throughout the year and that work supports the annual opinion.

The additional audits performed to carry out assurance work on new risks associated with the Covid-19 emergency response were:

- Discretionary Grants – Spotlight checks and advice
- *Covid-19 Grants Q3 Spotlight checks*
- *Covid-19 Grants Q4 – Spotlight checks*
- *Covid-19 – Post-Payment Fraud Risk Assessment*
- *Fraud Risks – Impact of Covid-19*

It has been agreed to defer some of the audit work to 2021/22 and this has been reported throughout the year to the Audit, Governance Committee.

The following are considered key pieces of audit work that support the annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control:

Plan Performance 2020/21

The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.

Annual Opinion

- *Procurement*
- *Performance Management*
- *Integrated Asset Management Contract*
- *Ethical Governance & Culture*
- *Baseline Assessment of Maturity for fraud.*

Throughout a challenging year, we have tried to ensure a balance between providing direct assistance to the Council and maintaining a continuum of audit work. We are pleased to report we have achieved this, although it must be recognised coverage is not comparable to previous or 'normal' years. The table at Figure 1 below attempts to capture our audit coverage this year, mapped against the Authority's key risks. It must be noted that it is not possible to cover all key risks in any one year but to provide coverage over the medium term.

In terms of limitations on the annual audit opinion I would remind the Audit Committees that this opinion does not cover assurance over the ICT control environment. Strata is subject to internal audit by the Devon Audit Partnership and the Audit Committee should seek necessary assurances over how well governance, risk and control has been managed during 2020-21.

Summary of Audit Work 2020/21

Internal audit coverage should be aligned to key corporate priorities and key corporate risks.



Audit Coverage by Corporate Risk

Figure 1: Audit Coverage by Corporate Risk*

Table Key	Reasonable internal audit coverage 2020-21	Partial internal audit coverage 2020-21	No internal audit coverage 2020-21
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Corporate Risk	Coverage
RK0054 – Insufficient Financial Resources	
RK0065 – Major disruption in continuity of computer and telecoms.	Covered by DAP
RK0153 – Failure of H&S Compliance of Corporate Property	
RK0205 – Failure to deliver Growth Point	
RK0206 – Failure to meet statutory obligations for homelessness	
RK0207 – Failure of council to sustain its service	
RK0208 – Failure to protect staff health & safety at work	
RK0210 – Implications of departure from the EU	

*Key areas of corporate risk as reflected in the Internal Audit Plan in March 2020.

In addition to the Corporate Risk register is an Operational Risk Register. Our work has covered the following:

Number of Operational Risks	83
Number fully covered by Audit Work	9
Number partially covered by Audit work	9

Summary of Audit Work 2020/21

Definitions of Corporate Risk

High Risk

Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Medium Risk

Issues which should be addressed by management in their areas of responsibility.

Low Risk

Issues of a minor nature or best practice where some improvement can be made.



Significant Corporate Risks

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at a 'Corporate' level once we have tested the controls in place. Where the controls are found to be ineffective and the 'Corporate risk' as 'High' these are brought to the Audit Committees attention. For those audits which have reached report stage through the year, we have assessed the following risks as 'High'.

Review Name / Risks
No risks identified as High during period.

Summary of Limited Assurance Audits

Audit Name	Risk Rating	Priority Findings		
		1	2	3
S106/CIL	Medium	0	2	2
Firmstep	Medium	0	5	0
Integrated Asset Management Contract	Medium	0	6	3

Note all these audits have been reported throughout 2020-21 to the Audit, Governance & Standards Committee.

Summary of Audit Work 2020/21

At the conclusion of an audit assignment each review is awarded an Audit Assurance Opinion:

- **Substantial** - A sound system of governance, risk management and control exists.
- **Reasonable** - Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives.
- **Limited** - Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives.
- **None** - The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives.



Summary of Audit Opinion

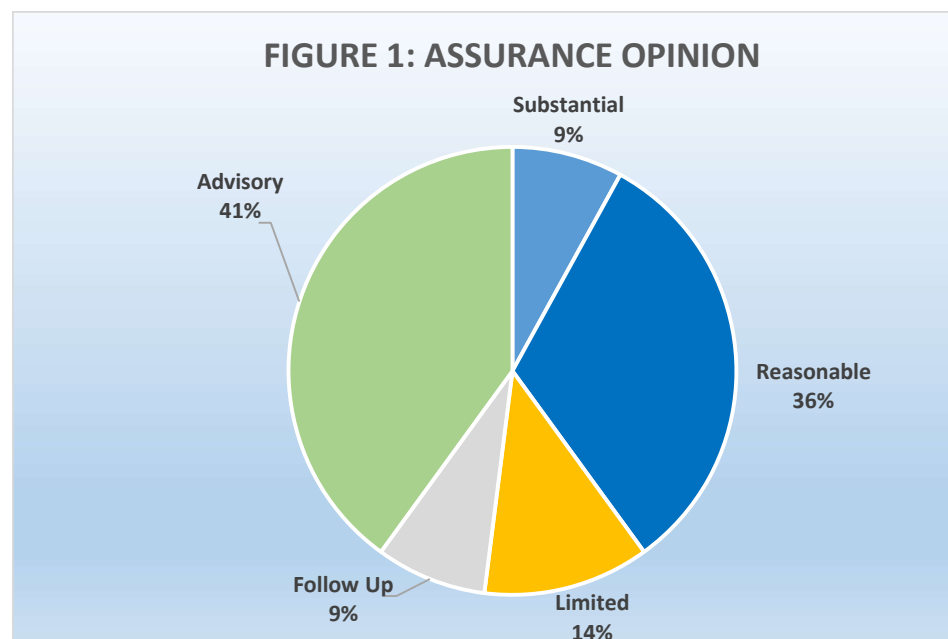


Figure 1 above indicates the spread of assurance opinions across our work during the past year (2020-21). Due to Covid-19 more time has been spent on 'Advisory' work.

Summary of Audit Work 2020/21

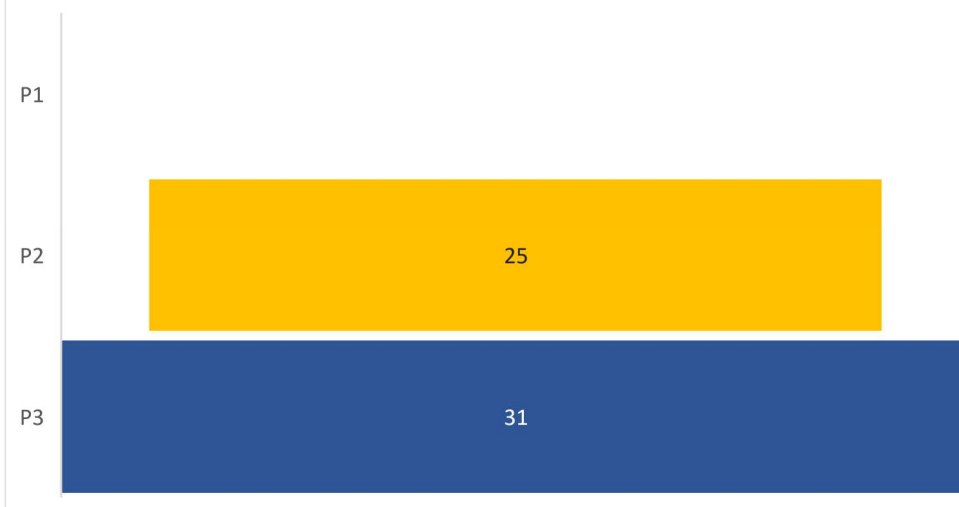
SWAP Performance - Summary of Audit Actions by Priority

We rank our actions on a scale of 1 to 3, with 3 being medium or administrative concerns to 1 being areas of major concern requiring immediate corrective action



Priority Actions

FIGURE 2: AGREED PRIORITY ACTIONS 2020-21



Added Value

Extra work that goes beyond the standard expectations and provides something that is beneficial to the customer for little or no extra cost.



Added Value

Throughout the year, SWAP strives to add value wherever possible i.e. going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost.

Benchmarking

During the year we have provided benchmarking data across either the SWAP partnership or the wider reach of the Local Authority Chief Auditors Network (LACAN) for:

- Baseline Assessment of Maturity for Fraud comparison.
- Risk Management Maturity Benchmarking.
- Covid-19 Grant Controls.

Members Training

During November we ran a free Audit Committee Members training event to provide an overview of the role of the Audit Committee as well as 'hot topics' that should be on Audit Committee radars.

News Roundup

We produce a monthly newsletter that provides information on topical areas of interest for public sector bodies. During the early stages of Covid-19 we increased the frequency of our newsflash to weekly/Fortnightly to provide relevant information.

Innovations and Enhancements to our Audit Process

During this exceptional year, we have taken the opportunity to implement and introduce a number of innovations and enhancements to our audit process. This has included:

- Introducing the concept of 'Agile Auditing' to our audit process. With increased collaboration and a joint commitment with the service under review, it is possible to complete audits faster and more efficiently. We have used this concept to complete a number of audits this year.

Plan Performance 2020/21

Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.

Added Value

- With the help of SWAP's two newly appointed Data Analysts, we are looking to include analysis of data as part of our auditing wherever possible. This allows us not only the opportunity to test whole populations of data, but where this is not possible or appropriate, to be able to use data analytics to target our testing in a more effective manner.
- SWAP's Counter Fraud Team has also facilitated access to counter fraud intelligence resources and issued alerts and newsletters to key officers in the Council.
- Introduced a new one-page audit report, that summarises all the key messages of the audit on one page for ease of consumption as well as increasing impact. Feedback on the report style has again been extremely positive.
- Introduced a new continuous audit planning and risk assessment process.

Plan Performance 2020/21

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).



SWAP Performance

SWAP's performance is subject to regular monitoring and review by both the SWAP Board of Directors and the Owners Board. The respective outturn performance results for EDDC for the 2020/21 year are as follows:

Performance Target	Average Performance
<u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion > 90% In progress/Review Yet to complete	96% 4% 0%
<u>Customer Satisfaction Questionnaire</u> Feedback Target > 95%	100%

SWAP work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Under these standards we are required to be independently externally assessed at least every five years to confirm compliance to the required standards. SWAP was recently assessed in February 2020 and confirmed that we are in conformance to PSIAS.

Attribute Standard 1300 of the IPPF requires Heads of Internal Audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues this dual aspect by stating that the programme must include both internal and external assessments. This acknowledges that high standards can be delivered by managers, but it also implies that improvements can be further developed when benchmarking is obtained from outside the organisation and the internal audit function. Following our External Assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to make, as aligned to SWAP's Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our actions.

Summary of Internal Audit Work 2020/21

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
FINAL									
Operational Audit	Affordable Housing	1	Final	Reasonable	2	0	2	0	
Governance Fraud and Corruption2	Discretionary Grant – Spotlight checks & Advice	1	Final	Advisory	0	0	0	0	
Governance Fraud and Corruption	Audit Committee Benchmarking	1	Final	Advisory	0	0	0	0	
Operational	Green Waste	1	Final	Reasonable	4	0	2	2	
Governance, Fraud, Corruption	Ethical Governance & Culture	1	Final	Reasonable	3	0	0	3	
Governance, Fraud and Corruption	Asset Register	2	Final	Reasonable	6	0	2	4	
Governance, Fraud and Corruption	S106/CIL Audit	2	Final	Limited	4	0	2	2	
Governance, Fraud and Corruption	Housing – H&S Compliance (Gas Safety)	2	Final	Reasonable	3	0	1	2	
Key Controls	Creditors	2	Final	Substantial	2	0	0	2	
Governance, Fraud, Corruption	Corporate Properties – H&S Compliance	2	Final	Reasonable	5	0	2	3	
Governance, Fraud, Corruption	New: Covid-19 Grants Q3 Spotlight checks.	3	Final	Advisory	0	0	0	0	

Plan Performance 2020/21

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Governance, Fraud and Corruption	Performance Management	3	Final	Reasonable	3	0	0	3	
Governance, Fraud, Corruption	Firmstep – Digital Transformation	3	Final	Limited	5	0	5	0	
Key Control	New Council Tax Reduction Scheme	3	Final	Advisory	0	0	0	0	
Governance, Fraud, Corruption	Procurement	4	Final	Reasonable	9	0	2	7	
Key Control	Council Tax	4	Final	Substantial	0	0	0	0	
Governance, Fraud, Corruption	Integrated Asset Management Contract	4	Final	Limited	9	0	6	3	
Governance, Fraud, Corruption	New: Council Baseline Assessment of Maturity for Fraud Prevention	4	Final	Advisory	0	0	0	0	
Follow up	Corporate Health and Safety	4	Final	Follow up	0	0	0	0	
Follow up	Data Protection (GDPR)	4	Final	Follow up	0	0	0	0	
Governance, Fraud, Corruption	New: Covid-19 grants Q4 – Spotlight Checking	4	Final	Advisory	0	0	0	0	
Governance, Fraud, Corruption	New: Covid-19 Fraud Post-Payment Risk Assessment	4	Final	Advisory	0	0	0	0	
Governance, Fraud, Corruption	NEW: Fraud Risks – Impact of Covid-19	4	Final	Advisory	1	0	1	0	

Plan Performance 2020/21

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
IN PROGRESS									
Governance, Fraud, Corruption	New: Fraud Risk Assessment	4	In Progress						
DEFERRED OR REMOVED									
Governance, Fraud, Corruption	Decision Making	4	Deferred		Moved to Quarter 2 – 2021/22 at request of Strategic Lead – Governance and Licensing				
Governance, Fraud, Corruption	LED Contract Management	4	Deferred		Moved to Quarter 1 – 2021/22 at request of Strategic Lead – Housing, Health and Environment				
Governance, Fraud, Corruption	Commercialisation Strategy	3	Removed		Replaced with Covid-19 Grants Q3 Spotlight checks.				
Operational Audits	Disabilities Facilities Grants and Better Care Funds	4	Removed		Replaced with Fraud Risks – Impact of Covid-19				
Operational Audits	Private Sector Housing – Fines for Non-compliance	4	Removed		Replaced with Council Baseline Assessment of Maturity for Fraud Prevention and Fraud Risk Assessment				
Key Controls	Accounts Receivable	4	Deferred		Replaced with Covid-19 grants Q4 – Pre and post checks				