

Report to Audit Committee

Review of the System of Internal Audit by the Audit Committee

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Low Carbon

Officer Contact: Anne Ryans, Director of Finance

Report Author: Mark Stenson – Head of Corporate Governance

Ext. 4783

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Reason for Decision

To update Members of the Audit Committee, following the 2019/20 internal assessments of the system for Internal Audit within the Council.

Executive Summary

The 2019/20 internal assessment of the Corporate Governance team (Internal Audit, Counter Fraud, Risk and Insurance) via the Balanced Scorecard Report concludes that the overall service is good.

The Scorecard has assessed the following matters as Amber/ Red:

Internal Audit

- Scorecard 1.10: Internal Audit: This is assessed as Amber/ Red and relates to the use of automated audit software. There have been some delays to the implementation of an appropriate cost effective solution. The team has worked with Business Intelligence and ICT colleagues to capture business requirements and market engagement has commenced to secure a cost-effective solution, via the Council's procurement process.

Corporate initiatives and Monitoring

- Scorecard 2.8: Corporate Initiatives and Monitoring: This is assessed as Amber/ Red and relates to the criteria "Payroll System has adequate opinion", which reflects
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the on-going challenges around improving the audit opinion on this Fundamental Financial System, which have been reported to this Committee elsewhere on the Agenda.

- Scorecard 2.9: Compliance within Council on Procedure Rules: This relates to the issue of contract documentation on contracted spend which has been highlighted as an issue in the 2019/20 Annual Governance Statement.

Some of the issues reported in the Balanced Scorecard are wider internal control issues rather than specific to the System of Internal Audit. However, it is proposed to keep this reporting methodology, as it represents a pragmatic way to provide an overview of the overall control environment of the Council supported by professional best practice.

The external assessment by CIPFA in 2017 concluded that the Audit and Counter Fraud service operates in accordance with best practice.

Recommendation

The Audit Committee notes the self-assessment of the Head of Corporate Governance that the overall system of Internal Audit has been fit for purpose in 2019/20.

Review of the System of Internal Audit by the Audit Committee**1 Background**

- 1.1 The Accounts and Audit Regulations and Public Sector Internal Audit Standards clarify that the body charged with governance, which for Oldham Council is the Audit Committee, should undertake an annual review of the effectiveness of its system of Internal Audit.
- 1.2 As previous years, the Head of Corporate Governance has submitted a report to this Audit Committee based on the review of the Internal Audit services against criteria set out in the “Balanced Scorecard” methodology. The Head of Corporate Governance bases this internal assessment on the criteria set out in the Public Sector Internal Audit Standards (PSIAS).
- 1.3 This report sets out the findings from the internal self-assessment by the Head of Corporate Governance.

2. Current Position – Internal Assessment

- 2.1 **Appendix 1** details the internal self-assessment for 2019/20 undertaken by the Head of Corporate Governance, the conclusions of which are reported using the Balanced Scorecard.
 - 2.2 The Balanced Scorecard has been developed to give this Committee the assurance on a number of matters, that the service supervised by the Head of Corporate Governance is operating effectively.
 - 2.3 The Team's performance against the following key criteria is:
 - **Internal Audit (Scorecard Section 1):** In line with the CIPFA external assessment, the performance of the system for Internal Audit is assessed as “green”. The team has worked in professional collaboration with key service managers where additional support is required and has also provided proactive professional advice where required. The one area assessed as Amber/ Red (1.10) relates to the use of automated audit software. There have been some delays to the implementation of an appropriate cost-effective solution. The team has worked with Business Intelligence and ICT colleagues to capture business requirements and market engagement has commenced to secure a cost-effective solution, via the Council's procurement process. One area assessed as Amber/ Green is liaison with Directorates and it is planned to improve this in 2020/21 by regular attendance at Directorate Management Teams.
 - **Corporate Initiatives and Monitoring (Scorecard Section 2):** The overall assessment is green, and improvements were made during the financial year 2019/20 which included a review of the Finance Procedure Rules. There are two items assessed as Amber/ Red and the first relates to the criteria “Payroll System should have an adequate opinion” as a baseline, which reflects the on-going challenges around improving the audit opinion on this Fundamental Financial System, which have been reported to this Committee several times. The second relates to the issue of contract documentation on contracted spend which has been highlighted as an issue in the 2019/20 Annual Governance Statement. The overall assessment of Amber/ Green for the control environment reflects the need to get the overall payroll opinion to adequate.
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- **Risk Management and Insurance (Scorecard Section 3):** The overall assessment is green, and improvements were made during the financial year which included refreshing the Risk Management Framework and Strategy.
 - **Counter Fraud and Staffing Issues (Scorecard Section 4):** Overall the skills of the team are assessed as green and demonstrate effectiveness. These skills have continued to develop in 2019/20. In line with the CIPFA assessment, the team operates in line with PSIAS. There are three items classed as Amber/ Green. The first relates to the Transparency Agenda which is an issue identified in the Annual Governance Statement. Whilst the approach adopted by the Council minimises its risks, the publication of payment data exposes all local authorities to the risk of fraud. The assessment of Amber/ Green on systems to detect fraud reflects the fact that the Council is dependent upon a number of factors to prevent loss and on occasion this will occur. The final assessment relates to developing training which is a proactive issue requiring development which it has not been possible to progress in 2019/20.

3 **Conclusions**

- 3.1 Following the external independent inspection by CIPFA in September 2017, the review in 2018/19 and the updated 2019/20 internal assessment by the Head of Corporate Governance, the overall system of Internal Audit remains good in 2019/20. Firm plans are in place to continue this progress in 2020/21.

4 **Options/Alternatives**

- 4.1 The Audit Committee consider this report in conjunction with the 2019/20 Annual Report and the Annual Governance Statement.
- 4.2 The Audit Committee suggests an alternative internal assessment methodology.

5 **Preferred Option**

- 5.1 The preferred option is that the Audit Committee accepts and notes the Review of the System of Internal Audit.

6 **Consultation**

- 6.1 N/A.

7 **Financial Implications**

- 7.1 N/A.

8 **Legal Services Comments**

- 8.1 N/A.

9 **Cooperative Agenda**

- 9.1 N/A.

10 **Human Resources Comments**

- 10.1 N/A
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11 **Risk Assessments**

- 11.1 Should the Audit Committee not consider a report reviewing the system of Internal Audit on an annual basis then it could be argued it has not complied with the Accounts and Audit Regulations (Mark Stenson)

12 **IT Implications**

- 12.1 N/A

13 **Property Implications**

- 13.1 N/A

14 **Procurement Implications**

- 14.1 N/A

15 **Environmental and Health & Safety Implications**

- 15.1 N/A

16 **Equality, community cohesion and crime implications**

- 16.1 N/A

17 **Equality Impact Assessment Completed?**

- 17.1 None Required

18 **Key Decision**

- 18.1 N/A

19 **Forward Plan Reference**

- 19.1 N/A

20 **Background Papers**

- 20.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are included in the Appendices
Officer Name:	Mark Stenson
Contact No:	0161 770 4783

21 **Appendices**

- 21.1 The following Appendices are available to support this Report:

- **Appendix 1:** Oldham Council Corporate Governance: 2019/20 Internal Assessment.
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Oldham Council Corporate Governance: 2019/20 Internal Assessment

Oldham Corporate Governance Scorecard Summary 2019-20					
Internal Audit		Risk	Components		
1.1 Compliance with International Auditing Standards			G		
1.2 Work on Fundamental Financial Systems			G		
1.3 Reporting to Audit Committee of Internal Control Matters			G		
1.4 Completion of the 2019/20 Internal Audit Plan			G		
1.5 Detailed undertaking and reporting of internal audit work			G		
1.6 Relationship with External Audit			G		
1.7 Internal Audit Planning Process			G		
1.8 Liaison with Directorates			A/G		
1.9 Audit Reporting			G		
1.10 Use of Automated Software			A/R		
Risk Management/Insurance		Risk	Components		
3.1 Level of Insurance Claims in Council			G		
3.2 Achievement of Insurance Savings			G		
3.3 Insurance incl Renewals Arranged			G		
3.4 Municipal Mutual Insurance			G		
3.5 Development of Financial Information on Insurance			G		
3.6 Risk Management Strategy			G		
3.7 Fraud Prevention on Insurance			G		
3.8 Success at Litigation			G		
3.9 Member involvement on Insurance/Risk Management			G		
Key to ratings					
R	Red - Highly problematic - requires urgent and decisive action.				
A/R	Amber/Red - Problematic - requires substantial attention, some aspects need urgent attention				
A/G	Amber/Green - Mixed - aspect(s) require substantial attention, some good				
G	Good – on target, or target already achieved				
W	Objectives where measures not yet agreed				
P	Work in progress. no assessment available.				
Corporate Initiatives and Monitoring		Risk	Components		
2.1 Corporate Governance Framework incl Annual Governance Statement			G		
2.2 External Audit Fees			G		
2.3 Counter Fraud Policy Framework			G		
2.4 Project Risk Monitoring			G		
2.5 Corporate Risk Management Approach			G		
2.6 Partnership Governance Monitoring			G		
2.7 Finance Procedure Rules fit for purpose			G		
2.8 Payroll and Adult Social Care Systems			A/R		
2.9 Compliance within Council on Procedure Rules			A/R		
2.10 Overall Control environment of Council			A/G		
Counter Fraud and Staffing Issues		Risk	Components		
4.1 Level of Fraud Within Council			G		
4.2 Transparency Agenda			A/G		
4.3 Counter Fraud Strategy			G		
4.4 Systems to prevent fraud in 2019/20			A/G		
4.5 National Fraud Initiative			G		
4.6 Develop training on Internal Control and Risk of Fraud			A/G		
4.7 Staffing Issues			G		
4.8 Mid Year Performance Appraisals			G		
4.9 Equal Opps & Other HR indicators			G		