

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

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Reason for Decision

To update Members of the Audit Committee, following the 2020/21 internal assessments of the system for Internal Audit within the Council.

Executive Summary

The 2020/21 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 most areas as Green with a few at Amber/Green. However, the following matters are assessed as Amber/ Red:

Corporate initiatives and Monitoring

- Scorecard 2.8: Corporate Initiatives and Monitoring:

The Amber/ Red assessment relates to the criteria “Payroll System and Adult Social Care has adequate opinion”, which reflects the on-going challenges around improving the audit opinion on these Fundamental Financial Systems, which will be included in the future Annual Report by the Chief Internal Auditor.

- Scorecard 2.9: Compliance within Council on Procedure Rules:

This Red/Amber assessment 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.

Recommendation

The Audit Committee notes the self-assessment of the Assistant Director of Corporate Governance and Strategic Financial Management that the overall system of Internal Audit has been fit for purpose in 2020/21.

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 Assistant Director of Corporate Governance and Strategic Financial Management 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 Assistant Director of Corporate Governance and Strategic Financial Management 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 Assistant Director of Corporate Governance and Strategic Financial Management.

2. Current Position – Internal Assessment

- 2.1 **Appendix 1** details the internal self-assessment for 2020/21 undertaken by the Assistant Director of Corporate Governance and Strategic Financial Management, 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 Assistant Director of Corporate Governance and Strategic Financial Management 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 continue to work in professional collaboration with key service managers where additional support is required and has also provided proactive professional advice where required. Three areas assessed as Amber/ Green are:
 - liaison with Directorates and it is planned to improve this in 2020/21 by regular attendance at Directorate Management Team Meetings.
 - the completion of the eight-month Internal Audit Plan 2020/21. Due to the pandemic and demand pressures faced by the service in supporting the Council’s response to COVID-19, the progress in completing the plan was limited.
 - Use of automated software. This has been procured but due to pressures related to the COVID response, it has not been possible to take this forward to the timeline anticipated. This will be a priority in 2021/22.
 - **Corporate Initiatives and Monitoring (Scorecard Section 2):** The overall assessment is green, and improvements were made during the financial year 2020/21 which included a review of the Finance Procedure Rules. There are two items assessed as Amber/ Red and the first relates to the criteria “improvements on the Payroll System and Adult Social Care systems” , 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
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relates to the issue of contract documentation on contracted spend which has been highlighted as an issue since the 2019/20 Annual Governance Statement. The overall assessment of Amber/ Green for the control environment reflects the need to improve overall payroll opinion.

- **Risk Management and Insurance (Scorecard Section 3):** The overall assessment is green. Improvements have been taken forward since the approval by Cabinet of the refreshed Risk Management Framework and Strategy in December 2019. However, progress was more limited in 2020/21 than originally planned due to the pandemic.
- **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 2020/21. In line with the CIPFA assessment, the team operates in line with PSIAS. There are two 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 second assessment relates to developing training which is a pro-active issue requiring development which it was not possible to progress in 2020/21.

3 Conclusions

- 3.1 Following the updated 2020/21 internal assessment by the Assistant Director of Corporate Governance and Strategic Financial Management, the overall system of Internal Audit remains good in 2020/21. Firm plans are in place to continue this progress in 2021/22.

4 Options/Alternatives

- 4.1 The Audit Committee consider this report in conjunction with the 2020/21 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.
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10 Human Resources Comments

10.1 N/A

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 Appendix 1
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21 Appendices

21.1 The following Appendices are available to support this Report:

- **Appendix 1:** Oldham Council Corporate Governance: 2020/21 Internal Assessment.

Oldham Council Corporate Governance: 2020/21 Internal Assessment

Oldham Corporate Governance Scorecard Summary 2020-21			
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 2020/21 Internal Audit Plan	A/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/G	
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	
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	A/G	
3.7	Fraud Prevention on Insurance	G	
3.8	Success at Litigation	G	
3.9	Member involvement on Insurance/Risk Management	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 2015/16	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	
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.		

