

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 – Assistant Director of Corporate Governance and Strategic Financial Management

21 July 2022

Reason for Decision

To update Members of the Audit Committee following the 2021/22 internal assessment of the system for Internal Audit within the Council.

Executive Summary

The financial year 2021/22 was another challenging year for the system of Internal Audit within Oldham Council due to resources being diverted (albeit not at the level in 2020/21) to administrative activity to respond to the pandemic.

The 2021/22 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:

Corporate Initiatives and Monitoring

- Scorecard 2.8: Corporate Initiatives and Monitoring: This is assessed as Amber/ Red and relates to Adult Social Care having an adequate opinion, which reflects the on-going challenges within the Adult Social Care Service around improving the audit opinion on this Fundamental Financial System, which has been included in the Annual Report by the Chief Internal Auditor submitted to the 21 June 2021 Committee meeting.
-

-
- Scorecard 2.9: Compliance within Council on Procedure Rules: This relates to the issue highlighted in the 2021/22 Annual Governance Statement whereby some relationships with suppliers require improved documentation.

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 2021/22.

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 in 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 2021/22 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 assurance on a number of matters, and 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 continues 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 are assessed as Amber/Green:
 - Liaison with Directorates is planned to improve during 2022/23.
 - The completion of the Internal Audit Plan 2021/22. Due to the pandemic and demand pressure faced by the service, the full progress of completing the plan was limited albeit less than the previous year.
 - Further development of the use of ICT within the service to support continuing improvement.
 - **Corporate Initiatives and Monitoring (Scorecard Section 2):** The overall assessment is Amber/Green. Improvements were made during the financial year 2021/22 which included an improvement in payroll administration. There are two items assessed as Amber/Red:
 - Adult Social Care systems, which reflects the on-going challenges around improving the audit opinion on Adult Social Care Fundamental Financial Systems, which have been reported to this Committee several times.
-

-
- The issue of contract management 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 Adult Social Care fundamental systems opinion.

- **Risk Management and Insurance (Scorecard Section 3):** The overall assessment is green, and improvements were made during the financial year which included embedding 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 2021/22. In line with the CIPFA assessment, the team operates in line with PSIAS. There are two items classed as Amber/Green:
 - The Transparency Agenda, which is an issue identified in the Annual Governance Statement with the risk of potential fraud increasing. Whilst the approach adopted by the Council minimises its risks, the publication of payment data exposes all local authorities to the risk of fraud.
 - Developing training which is a pro-active issue requiring development which it has not been possible to progress as promptly as planned due to the pandemic.

3 Conclusions

- 3.1 Following the updated 2021/22 internal assessment by the Assistant Director of Corporate Governance and Strategic Financial Management, the overall system of Internal Audit remains good in 2021/22. Firm plans are in place to continue this progress in 2022/23.

4 Options/Alternatives

- 4.1 The Audit Committee consider this report.
- 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
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: 2021/22 Internal Assessment.

Oldham Council Corporate Governance: 2021/22 Internal Assessment

Oldham Corporate Governance Balanced Scorecard Summary 2021-22											
Internal Audit					Corporate Initiatives and Monitoring						
1.1	Compliance with International Auditing Standards	G							2.1	Local Code of Corporate Governance	G
1.2	Work on Fundamental Financial Systems	G							2.2	Annual Governance Statement reflects CIPFA/SOLACE	G
1.3	Reporting to Audit Committee of Internal Control Matters	G							2.3	External Audit Fees	G
1.4	Completion of the 2021/22 Internal Audit Plan	A/G							2.4	Counter Fraud Policy Framework	G
1.5	Detailed undertaking and reporting of internal audit work	G							2.5	Systems Assurance on developments has led to improvements	G
1.6	Relationship with External Audit	G							2.6	Challenging Issues reported to Audit Committee	G
1.7	Risk Based Internal Audit Planning Process	G							2.7	Finance Procedure Rules are up to date	G
1.8	Liaison with Directorates	A/G							2.8	Adult Social care System has an adequate opinion	A/R
1.9	Audit Reporting	G							2.9	Compliance within Council on Procedure Rules	A/R
1.10	Use of Automated Software	A/G							2.10	Overall Control environment of Council	A/G
Risk Management/Insurance					Public Sector Internal Audit Standards						
3.1	Level of Insurance Claims in Council	G							4.1	Level of fraud within Council	G
3.2	Achievement of Insurance Savings	G							4.2	Transparency Agenda	A/G
3.3	Insurance incl Renewals Arranged	G							4.3	Counter Fraud Strategy	G
3.4	MMI Risk Managed	G							4.4	Systems to Prevent Fraud	G
3.5	Development of Financial Information on Insurance	G							4.5	National Fraud Initiative	G
3.6	Risks Management Strategy	G							4.6	Develop Training on Internal Control and Risk of Fraud	A/G
3.7	Fraud Prevention on Insurance	G							4.7	Staffing Issues	G
3.8	Success at Litigation to reduce costs	G							4.8	Performance Appraisals	G
3.9	Member involvement on Insurance/Risk Management	G							4.9	Equal Opportunities and 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.										