

# Eastern Internal Audit Services



## GT YARMOUTH BOROUGH COUNCIL

### Annual Report and Opinion 2019/20

Responsible Officer: Emma Hodds – Head of Internal Audit for Gt Yarmouth Borough Council

## CONTENTS

1. INTRODUCTION.....	2
2. ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT .....	2
2.1 Roles and responsibilities .....	2
2.2 The opinion itself.....	3
3. AUDIT WORK UNDERTAKEN DURING THE YEAR.....	3
4. THIRD PARTY ASSURANCES.....	5
5. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT .....	5
APPENDIX 1 – AUDIT WORK UNDERTAKEN DURING 2019/20 .....	9
APPENDIX 2 ASSURANCE CHART.....	11
APPENDIX 3 – LIMITATIONS AND RESPONSIBILITIES.....	14

## 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 Audit and Risk 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 Audit and Risk 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 Executive Management Team and key stakeholders and then approved by the Audit and Risk Committee at its meeting on 4 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 Audit and Risk 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 Gt Yarmouth Borough Council is **reasonable**.

Of the 19 assurance audits completed within the year a total of 18 resulted in a positive assurance grading. Three reports, Accountancy Services, Income and Housing Benefits and Council Tax Support received a substantial assurance grading.

One report, for the Preservation Trust report concluded with a limited assurance grading. A total of one urgent, five important and five needs attention priority findings were raised of which nine have already been addressed by management. Two needs attention recommendations remain outstanding.

We recommend that the Council refers to historical outstanding Internal Audit Recommendations from Limited Assurance reports in its Annual Governance Statement. One important priority recommendation remains outstanding from the 2017/18 Corporate Health and Safety review, one important recommendation from the 2018/19 Governance review and four important recommendations from the 2018/19 Procurement review. Details of these outstanding recommendations can be found in Section 3.5 of this report.

We were unable to conclude our work in one area in 2019/20 due to the impact of the Coronavirus Pandemic. Our review of Housing Needs, Allocations and Homelessness will be rescheduled for when the service area is able to support our review.

Considering that overall the majority of areas audited in 2019/20 have resulted in a positive assurance grading and in some cases substantial assurance in areas of financial control, we feel able to make a reasonable assessment of the governance risk and control framework at Great Yarmouth Borough Council.

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, and provides the assurance opinion, the number of recommendations raised and the year end position in addressing the issues raised.

In addition, **Appendix 2** is attached which shows the assurances provided over previous & current financial years to provide an overall picture of the control environment. This assurance chart highlights the progress that has been made in areas whereby negative assurances have previously been concluded.

- 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 internal audit services in 2019/20 has covered a wide range of services. Internal Audit has issued 19 assurance reports, with 18 of these assurances being positive. (three reports were given substantial assurance and 15 were given reasonable assurance).

A limited assurance was concluded in the following area:

Preservation Trust – 11 recommendations were raised and agreed by management, (one urgent, five important and five needs attention). A total of nine have now been addressed. Two needs attention recommendations remain outstanding.

No changes to the internal audit plan have been made over the course of the year. However as mentioned within the opinion, we were unable to completed one review in 2019/20 for Housing Needs, Allocations and Homelessness due to the impact of the Coronavirus Pandemic. In addition, and due to the above, a further four reports have been issued to management but remain in draft at the time of writing this report. They are; Key Controls and assurance, Corporate Enforcement, Housing Adaptations and Starters, Movers Leavers. We have however provided the Executive Summaries of these reports to the Committee in the 2019/20 progress report where overall gradings have been indicated.

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

### 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 84 recommendations raised and agreed by management so far; 46 have been implemented by the agreed date and 19 are not yet due. A further 26 recommendations have been raised but not included in this total as they are from reports yet to be finalised.

A total of 19 are outstanding are now outstanding; four important and 15 needs attention.

A total of 28 recommendations remain outstanding from the 2018/19 year; (11 important, 17 needs attention).

Two important recommendations outstanding from the 2017/18 financial year. One relating to varying to the GY Norse contract to reflect H&S responsibilities and the other relating to amending SLA agreements for collection and recovery processes.

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

A limited assurance report was concluded for the Preservation Trust review in 2019/20. A total of 11 recommendations were raised of which nine are now complete. trust's work. Just two needs attention recommendations now remain overdue and are not significant enough to be raised in the Council's Annual Governance Statement.

The outstanding recommendations from historical limited assurance reviews are as follows. We recommend that these recommendations are referenced in the Councils Annual Governance Statement until they are resolved;

An important priority recommendation remains outstanding from the Corporate Health and Safety review relating to the GY Norse Contract. Management are required to initiate a variation to the contract reflecting Health & Safety contract responsibilities. NP Law were instructed to add this clause to the contract by October 2017. We feel that this issue should be included in the Annual Governance Statement until such time that it is resolved.

The 2018/19 Corporate Governance report concluded in a limited assurance grading. This review evaluated the controls in place to ensure compliance with the GDPR legislation. One important recommendation remains outstanding in relation to reviewing off site paper storage arrangements. This recommendation is due for completion by August 2020.

The 2018/19 Procurement and Contract Management audit resulted in a Limited assurance grading and four important recommendations now remain outstanding. These relate to the update of the Procurement Strategy and Standing Orders, regular review of the Contracts Register and analysis of spend to ensure all relevant contracts are reflected and to finalise arrangements for the Kerbside Green Waste Collection Service.

#### **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.

## 5.2 **Performance Indicator outcomes**

- 5.2.1 The Internal Audit Service is benchmarked against several performance indicators as agreed by the Audit and Risk Committee.

Actual performance against these targets is outlined within the following table:

- 5.2.2 It is encouraging to note that 9 out of a possible 11 performance measures have been achieved, with three of these exceeding targets. Client feedback has been provided which has been extremely positive recognising the professional service provided and also the value that internal audit has brought to the Council. However, we acknowledge that questionnaire responses from Officers following each internal audit has been less than in previous years. To ensure that we obtain higher levels of feedback we will be working with the Section 151 officer 2020/21 to ensure that requests for feedback are actioned.

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, as mentioned earlier within this report for reasons outside of the control of the Internal Audit team one internal audit review was not completed in time for year end.

We are however pleased to report that a total of 19 planned internal audit reviews assigned to TIAA were issued to management in draft by 14 April 2020.

Area / Indicator	Frequency	Target	Actual	Comments
<u>Audit Committee / Senior Management</u>				
1. Audit Committee Satisfaction – measured annually	Annual	Adequate	TBC	TBC
2. Chief Finance Officer Satisfaction – measured quarterly	Annual	Good	TBC	TBC
<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%	100%	Achieved – 19 assurance reports. One report not completed due to COVID19.
4. Quarterly assurance reports to the Contract Manager within 15 working days of the end of each quarter	Quarterly	100%	75%	Not Achieved – one performance report received outside of 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%	n/a	No issues to address.
<u>Clients</u>				
8. Average feedback score received from key clients (auditees)		Adequate	Good	Exceeds – 8 surveys 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 the Section 151 Officer for independent scrutiny and verification.



## APPENDIX1 – AUDIT WORK UNDERTAKEN DURING 2018/19

Audit Area	Assurance	No of Recs	Implemented	P1 OS	P2 OS	P3 OS	Not yet due
<b>Annual Opinion Audits</b>							
GYB Services	Reasonable	13	5	0	1	7	0
Housing Strategy and Affordable Housing	Reasonable	5	4	0	0	1	0
Markets	Reasonable	3	3	0	0	0	0
Accountancy Services	Substantial	0	0	0	0	0	0
Accounts Receivable	Reasonable	8	8	0	0	0	0
Income	Substantial	1	1	0	0	0	0
Council Tax and NNDR	Reasonable	2	1	0	0	1	0
GY Norse	Reasonable	10	6	0	0	4	0
Section 106 Agreements	Reasonable	6	2	0	2	0	2
Preservation Trust	Limited	11	9	0	0	2	0
Corporate Governance	Reasonable	7	3	0	0	0	4
Housing Benefits and Council Tax Support	Substantial	1	1	0	0	0	0
Key Controls and Assurance DRAFT	Reasonable	9					9
Equinox Enterprises	Reasonable	6	0	0	0	0	6
Housing Adaptations DRAFT	Reasonable	2					2
Corporate Enforcement DRAFT	Reasonable	7					7
<b>IT audits</b>							
Data Centre and Back Up	Reasonable	4	3	0	1	0	0
Cyber Crime	Reasonable	7	0	0	0	0	7
Starters, Movers, Leavers DRAFT	Reasonable	8					8
<b>Total</b>		<b>110</b>	<b>46</b>	<b>0</b>	<b>4</b>	<b>15</b>	<b>45</b>

<b>Assurance level definitions</b>		<b>Number</b>
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.	3
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.	15
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.	1
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
<b>Annual Opinion / Corporate Audits</b>					
Corporate Governance and Risk Management					
Corporate Governance	Reasonable		Reasonable	Limited	Reasonable
Risk Management	Reasonable	Reasonable		Reasonable	
Key Controls and Assurance	Reasonable	Reasonable	Reasonable	Substantial	Reasonable
Corporate Health and Safety			Limited	Reasonable	
Equinox Enterprises			Limited		Reasonable
<b>Fundamental Financial Systems</b>					
Accounts Receivable	Reasonable		Reasonable		Reasonable
Income / Remittances	Reasonable		Substantial		Substantial
Income / Markets			Reasonable		
Accountancy Services	Reasonable		Substantial		Substantial
Housing Benefits and Council Tax Support	Reasonable		Reasonable		Substantial
Council Tax / NNDR	Reasonable		Reasonable		Reasonable
Accounts Payable		Reasonable		Substantial	
Payroll / HR		Substantial		Substantial	
Housing Rents		Reasonable		Reasonable	
Cross Authority Review - Accounts Payable					
Cross Authority Review - Accounts Receivable					
Cross Authority Review - Payroll and HR					
<b>Contract Audit</b>					
General Fund Capital Programme Contracts		Reasonable		Reasonable	
GY Norse	Reasonable				Reasonable
GYB Services	Reasonable				Reasonable
Procurement	Limited			Limited	
Leisure Trust	No Assurance	Reasonable			
Contract Management					
<b>Service Area Audits</b>					
Business Strategy and Performance Management		Reasonable			
Performance Management	Reasonable	Reasonable			
Member Services					
NPLaw		Reasonable			
Property Services		Limited		Reasonable	
Neighbourhood Management / Community Development	Limited		Reasonable		
Disabled Facility Grants and Discretionary Loans				Reasonable	

	Current Contract				
	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Annual Opinion / Corporate Audits</b>					
Gt Yarmouth Market	No Assurance	Reasonable			Reasonable
Elections and Electoral Registration					
Bereavement Services		Substantial			
Waste Management					
Environmental Health Services		Reasonable		Reasonable	
Licensing		Reasonable			
Car Parking	Reasonable			Reasonable	
Development Control			Reasonable		
Building Control			Reasonable		
Printing, Reception, Customer Services					
Inventory		Reasonable			
Tourism, Marketing, Communication & Media (BID 1617)		Limited			Limited
Planned and Responsive Maintenance					
Leasehold Management			Limited	Reasonable	
Right to Buy			Reasonable		
Localism and Communities					
Homelessness and Housing Options	Reasonable		Reasonable		
Private Sector Housing	Reasonable				Reasonable
Section 106 Arrangements				Position Statement	Reasonable
Services for the Elderly and Sheltered Housing					
Control Centre		Limited		Reasonable	
Housing Adaptations			Limited		Reasonable
Arts Strategy		n/a			
Outdoor Leisure		Reasonable		Limited	
Venetian Waterways				Position Statement	
Corporate Enforcement					Reasonable
Use of Consultants		No Assurance			
<b>IT Audits</b>					
Revenues and Benefits Application					
HR and Payroll Application					
Remote Access					
Data Centre, Back Up and Disaster Recovery					Reasonable
Software Licensing					
Data Protection and Freedom of Information					
BACS Transfer (Microgen)					

	Current Contract				
	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Annual Opinion / Corporate Audits</b>					
Starters, Movers & Leavers	Reasonable				Reasonable
Change Control & Patch Management	Limited				
Network Security & Infrastructure	Reasonable		Reasonable	Reasonable	
Content Management		Reasonable			
ICT Contract Review		Limited		Reasonable	
Connectivity		Reasonable			
IT Project and Programme Management					
Cyber Crime					Reasonable
Integra and Cash Application			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 to Gt Yarmouth Borough Council is for the year ended 31 March 2019. 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.