

Eden District Council
Accounts and Governance Committee
27 June 2019

Internal Audit Annual Report 2018/19

Portfolio:	None
Report from:	Director of Corporate Services
Wards:	All Wards
OPEN PUBLIC ITEM	

1 Purpose

- 1.1 To provide the Council with an assurance on internal controls that helps to evidence the effectiveness of the system of internal control, as set out in the Annual Governance Statement (AGS).

2 Recommendation

It is recommended that the Committee notes the report.

3 Report Details

- 3.1 The Council has an internal audit function in line with section 5 of the Accounts and Audit (Regulations 2015 (England and Wales)). This operates within appropriate 'public sector internal auditing standards or guidance' as defined by Public Sector Internal Audit Standards (PSIAS) and the associated Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note (LGAN).
- 3.2 This report sets out an opinion on the Council's overall control environment, based on the output of the 2018/19 internal audit plan, and reports on the effectiveness of the Internal Audit service.
- 3.3 The Head of Internal Audit's opinion is that, based on the evidence provided through:
- selection of areas to review as set out in the approved, risk based audit plan for 2018/19, and
 - the completion of the internal audits provided by TIAA and EIAS for 2018/19, in line with the approved plan
- there was an effective framework of governance, risk management and control in place during 2018/19. Assurance can never be absolute and it is not possible to give complete assurance that there are no major weaknesses. Internal Audit work has not flagged any issues that need to be raised in the Annual Governance Statement. Further details on completion of the 2018/19 audit plan and an assessment on the quality of the internal audit process are covered in more detail below.
- 3.4 **Completion of the Audit Plan**
- 3.4.1 The Council's Audit Plan for 2018/19 comprised 210 days of planned audit work (this does not include the time spent on other audit work, such as special investigations). This was resourced by buying in 80 days from TIAA Limited, with the remainder being provided by the Council's Senior Auditor (Eden Internal Audit Service (EIAS)).

- 3.4.2 The annual reports from TIAA Limited and EIAS are set out in Appendix 1 and Appendix 2 respectively. All planned audits for 2018/19 have been completed and reported to this Committee (see progress against 2018/19 audit plan report on this agenda).
- 3.4.3 As reported in the progress against the 2018/19 audit plan, elsewhere on this agenda, all the planned reports were completed in the year. TIAA issued 7 reports, 6 with substantial assurance, 1 with reasonable. EIAS issued 6 reports, 1 with substantial assurance, 5 with reasonable assurance. Taken together, these provide evidence of at least reasonable assurance over the effectiveness of internal controls.

3.5 **Quality Assurance**

- 3.5.1 During the year, the EIAS was subject to detailed external review by CIPFA. This was reported to Accounts and Governance Committee in February. This concluded that there were some opportunities for improvements, but the service generally conformed with the Public Sector Internal Audit Standards (PSIAS). This is the highest rating.

3.6 **Annual Governance Statement (AGS)**

- 3.6.1 The AGS is the annual review of effectiveness of the system of internal control. The Council has to complete and publish this alongside the statement of accounts. A key source of evidence is the annual internal audit opinion from this report. The AGS was considered by this Committee on 18 April 2019 (Ref F28/19). The AGS was amended to reflect changes asked for by the Committee and any other issues between the date of review and 30 May 2019. An item was added to the AGS action plan reflecting a specific issue around a particular contract. The unaudited AGS was signed off by the Chief Executive and the Leader of the Council on 30 May 2019.
- 3.6.2 An updated AGS will be presented to this Committee on 25 July 2019, when the Audited Accounts are considered. This will reflect the finalised internal audit opinion from this report and any other issues to be reflected up to the date of sign off.

4 **Policy Framework**

- 4.1 The Council has four corporate priorities which are:
- Decent Homes for All;
 - Strong Economy, Rich Environment;
 - Thriving Communities; and
 - Quality Council

5 **Consultation**

- 5.1 There has been no consultation with Ward Councillors or Portfolio Holders.

6 **Implications**

6.1 **Financial and Resources**

- 6.1.1 Any decision to reduce or increase resources or alternatively increase income must be made within the context of the Council's stated priorities, as set out in its Council Plan 2015-2019, as agreed at Council on 17 September 2015.
- 6.1.2 There are no direct financial implications of the report.

6.2 Legal

6.2.1 There are no direct legal implications of the report. The Council is required to operate an internal audit function in line with the Accounts and Audit Regulations 2015.

6.3 Human Resources

6.3.1 There are no Human Resources implications.

6.4 Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	There are no implications
Health, Social Environmental and Economic Impact	There are no implications
Crime and Disorder	There are no implications
Children and Safeguarding	There are no implications

6.5 Risk Management

Risk	Consequence	Controls Required
Issues raised by Internal Audit are not appropriately actioned by management	Weak systems control, increased risk of theft and fraud.	Reporting of internal audit recommendations publicly to Committee and tracking implementation of these.
Audit programme slipping	Approved programme not delivered, resources not directed as planned and reported.	Regular reporting on internal audit progress.

7 Other Options Considered

7.1 No other options have been considered.

8 Reasons for the Decision/Recommendation

8.1 To set out the overall opinion on internal controls based on the outcome of internal audit reviews and the effectiveness of the internal function for the year.

Tracking Information

Governance Check	Date Considered
Chief Finance Officer (or Deputy)	19 June 2019
Monitoring Officer (or Deputy)	18 June 2019
Relevant Director	As per Monitoring Officer sign off above.

Background Papers: Internal Audit Reports 2018/19

Appendices: Appendix 1: TIAA Limited Annual Report 2018/19

Appendix 2: EIAS Annual Audit Report 2018/19

Contact Officer: Pete Notley, Assistant Director Finance, 01768 212209

Intentionally Blank



Bought-in Internal Audit – TIAA Limited

EDEN DISTRICT COUNCIL

INTERNAL AUDIT ANNUAL REPORT

2018/19

June 2019

CONTENTS	Page
EXECUTIVE SUMMARY	3
1. SERVICE BACKGROUND	6
2. REVIEW OF PERIOD	6
3. ANNUAL STATEMENT OF ASSURANCE	7
4. RECOMMENDATIONS AND FOLLOW UP IN THE YEAR	8
5. QUALIFICATIONS TO THE OPINION	9
APPENDIX A	10
Reports issued in 2018/19	10

EXECUTIVE SUMMARY

Background

The purpose of this report is to support the Head of Internal Audit's annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS). The Head of Internal Audit's formal annual report should present an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, and must incorporate:

- a) The opinion;
- b) A summary of the work that supports the opinion, and;
- c) A statement on conformance with Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

The PSIAS states that "the Head of Internal Audit must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement". Therefore, in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Council in meeting the requirements of the Accounts and Audit Regulations 2015 and the 2007 CIPFA/SOLACE Framework, together with the 2012 guidance note and Addendum, with regard to internal control.

Scope of Responsibility

The Council is responsible for ensuring its business is conducted in accordance with law and proper standards. In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Basis of Assurance

We have conducted our audits in accordance with professional standards and good practice contained within the PSIAS and additionally from our own internal quality assurance systems. We have also outlined any limitations in the scope of our audit work in "qualifications to the opinion" within the detail of this report.

In addition, TIAA Limited has undertaken a self-assessment against the requirements of the PSIAS, and can confirm continued conformance.

TIAA Limited Annual Opinion Statement

This opinion statement is provided in support of the Council's Annual Governance Statement as required under the Accounts and Audit Regulations 2015. Our opinion is derived from work carried out by TIAA Limited during the year as part of the agreed internal audit plan for 2018/19. The Internal Audit plan for 2018/19 was developed to primarily provide management and the Council's Audit Committee with independent assurance on the adequacy and effectiveness of the Council's arrangements for governance, risk management and internal control.

The PSIAS require the Head of internal audit to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control. As the Council are required to produce an Annual Governance Statement sources of assurance are reflected within this process, which Internal Audit are a part of; therefore the control environment is reviewed more fully in this way.

2018/19 Year Opinion

The purpose of this report is to give my opinion on the adequacy and effectiveness of the systems of risk management, governance and internal control from the work undertaken by TIAA Limited for the year ended 31 March 2018.

In giving my opinion it should be noted that assurance can never be absolute and it is not possible to give complete assurance that there are no major weaknesses. My opinion is based on the work undertaken by internal audit during the year, including the outcomes of follow up work.

I am of the opinion that, for the areas reviewed during the year at Eden District Council, there is reasonable assurance that effective risk management, control and governance processes are in place to manage the achievement of its objectives. Audit testing has confirmed that controls are generally working effectively in practice.

Where internal audit work has identified scope for improvements, the management response has been appropriate and action plans agreed.

The Annual Governance Statement process separately records any additional weaknesses reflecting the assurance provided from all sources both internal and external. Any significant weaknesses would be recorded in the Annual Governance Statement.

Staff Co-operation and Declaration of Audit Independence

The successful achievement of the audit plan is dependent on the contribution of the Council's staff as audit clients. We would like to record our appreciation for the involvement and commitment of staff, and for their critical appraisal of our recommendations during the year.

The LGAN requires an annual declaration of audit independence. I can confirm that there has been no threat to the independence of our work that would impact on the provision of my annual opinion statement.

**Peter Harrison,
Director, TIAA Limited.**

1. SERVICE BACKGROUND

1.1 Our reporting lines

TIAA Limited operate as part of the Council's Internal Audit service under the direction of the Director of Finance (Head of Internal Audit) with access to the Chief Executive and elected Members if, in exceptional circumstances, we consider this necessary.

The remainder of the Internal Audit function is undertaken by the Council's Senior Auditor.

The Director, TIAA Limited, has regular meetings with the Director of Finance to discuss progress.

This is the third year of a three year contract to provide internal audit services to Eden District Council.

1.2 Professional standards

We aim to deliver all our work in line with the mandatory PSIAS and associated CIPFA Local Government Application Note.

1.3 Our audit process

We adopt a risk-based approach to identify, and evaluate the adequacy and effectiveness of the controls in place to mitigate risk across the Council.

The level and mix of staff utilised for the Internal Audit Service is matched to the complexity of each assignment, with specialists, such as computer auditors, utilised where appropriate. The use of TIAA Limited, as internal audit provider, gives the benefit of access to audit staff with a wide range of skills and experience.

2. REVIEW OF PERIOD

2.1 Progress against 2018/19 Annual Plan

We have issued seven final reports, which completes the planned work of TIAA Limited for 2018/19. A detailed analysis of the current situation regarding the 2018/19 Plan is provided in Appendix A. In addition, TIAA undertook a grant claim audit in relation to Historic England Funding.

3. ANNUAL STATEMENT OF ASSURANCE

For each audit, we give an overall opinion on the level of assurance which we consider is provided by the controls in place within the system audited. The following classification of assurance levels has been adopted:

Level	Definition
Substantial Assurance	Based upon our findings there is a robust series of suitably designed internal controls in place upon which the organisation relies to manage the risk of failure of the continuous and effective achievement of the objectives of the process, which at the time of our review were being consistently applied.
Reasonable Assurance	Based upon our findings there is a series of controls in place, however there are potential risks that they may not be sufficient to ensure that the individual objectives of the process are achieved in a continuous and effective manner. Improvements are required to enhance the adequacy and effectiveness of the controls to mitigate these risks.
Limited Assurance	Based upon our findings the controls in place are not sufficient 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.
No Assurance	Based upon our findings there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage the risks to the continuous and effective achievement the objectives of the process. Immediate action is required to improve the adequacy and effectiveness of controls.

Four audits were assessed as giving substantial assurance and two were assessed as giving reasonable assurance. The review of Digital Innovation Programme was assessed as only giving limited assurance.

Reports Issued		Substantial Assurance		Reasonable Assurance		Limited Assurance		No Assurance	
		No.	%	No.	%	No.	%	No.	%
2018/19	7	6	86	1	14	0	0	0	0

The conclusions and assurance levels specified for each audit are used to support the Council's governance review arrangements, as required by the Accounts and Audit Regulations 2015 and the 2007 CIPFA/SOLACE Framework, together with the 2012 guidance note and Addendum.

4. RECOMMENDATIONS AND FOLLOW UP IN THE YEAR

4.1 Introduction

Our audit recommendations are categorised by three priority levels. These categorisations are described below.

Priority 1 Urgent – Fundamental control issue on which action should be taken immediately.

Priority 2 Important – Control issue on which action should be taken at the earliest opportunity.

Priority 3 Routine – Control issue on which action should be taken.

4.2 Recommendations made

The following table summarises the number of audit recommendations made during the year in our Final Reports, and the management responses, analysed in accordance with the above categories.

Recommendations	Total	Priority 1	Priority 2	Priority 3
Fully Accepted	17	0	3	14
Partly Accepted	0	0	0	0
Not Accepted	0	0	0	0

4.3 Implementation of recommendations

Dates for implementation of recommendations are indicated in each of the audit reports. The Council should ensure all recommendations made within 2018/19 are addressed within 2019/2020.

5. QUALIFICATIONS TO THE OPINION

Internal Audit has had unrestricted access to all areas and systems across the authority and has received appropriate co-operation from officers and Members.

PROGRESS AGAINST THE INTERNAL AUDIT PLAN 2018/2019

Audit Assignment	Status	Assurance
FUNDAMENTAL SYSTEMS		
Council Tax	Final	Substantial
National Non-Domestic Rates	Final	Substantial
Housing Benefits	Final	Substantial
OTHER SERVICES / SYSTEMS		
Development Control and Building Regulations	Final	Substantial
Insurance, Risk Management and Health and Safety	Final	Substantial
Licensing – Premises and Clubs	Final	Substantial
Procurement and Contract Monitoring	Final	Reasonable



Eden District Council
INTERNAL AUDIT ANNUAL REPORT
Eden District Council Internal Audit Service (EIAS)
2018-2019
June 2019

EXECUTIVE SUMMARY

Background

The purpose of this report is to support the Head of Internal Audit's annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS). The Head of Internal Audit's formal annual report should present an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, and must incorporate:

- a) The opinion;
- b) A summary of the work that supports the opinion, and;
- c) A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

The PSIAS state that "the Head of Internal Audit must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement". The work covered by this report and the opinion arising from it meets this requirement. The report also outlines how the Internal Audit function has supported the Council in meeting the requirements of Part 2 of the Accounts and Audit Regulations 2015 which relate to Internal Control.

Scope of Responsibility

The Council is responsible for ensuring its business is conducted in accordance with law and proper standards. In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Basis of Assurance

Audits have been conducted in accordance with professional standards and good practice contained within the PSIAS and internal quality assurance systems. Any limitations in the scope of audit work are outlined in individual audit reports and the "qualifications to the opinion" section of this report.

A self-assessment has been made against the requirements of the PSIAS, which indicates that audit work undertaken by in-house audit service conforms in all material respects. An external assessment by CIPFA was also undertaken in 2018-19 which concluded that the service "generally conforms to the requirements of the Public Sector Internal Audit Standards and those of the Local Government Application Note". The results of both assessments serve to demonstrate that audit work has been undertaken to an appropriate standard.

In addition Committee Agendas and Reports and notes of management meetings published during the year were reviewed in order to monitor the issues facing the Council and the

responses to these. This maintains an overview of those areas that may not be included in the Audit Plan each year.

Senior Auditor (Eden DC Internal Audit Service) Annual Opinion Statement

The PSIAS require an annual opinion based on an objective assessment of the framework of governance, risk management and control.

This opinion statement is provided in support of the Council's Annual Governance Statement as required under the Accounts and Audit Regulations 2015. The opinion is derived from work carried out by the In-House Service during the year as part of the agreed internal audit plan for 2018-19. The Internal Audit plan was developed primarily to provide management with independent assurance on the adequacy and effectiveness of the internal control environment with the work of the in-house service focussed primarily on the 'fundamental' financial systems. Audit testing undertaken as part of the planned work also provides assurance that the Council is meeting its responsibilities under the Accounts and Audit Regulations to ensure that financial control systems are observed and accounting records are kept up to date.

The level of coverage in the Audit Plan was less than anticipated in 2018-19 due to a number of factors which are outlined in Appendix A. This obviously affects the degree of assurance that can be given in some areas as all planned testing was not undertaken. Areas affected are noted in the respective reports for each system audited. It is judged that adequate coverage was achieved to support the annual opinion.

It should be noted that one of the recommendations in the PSIAS Compliance assessment undertaken by CIPFA was that the Council should consider the extent of the testing which it currently undertakes on the fundamental systems. This will be reviewed in 2019-20, but such a recommendation would indicate that CIPFA do not consider it necessary to undertake full testing of each system every year in order to comply with the PSIAS.

2018-19 Year Opinion

The purpose of this report is to give my opinion on the adequacy and effectiveness of the systems of risk management, governance and internal control from the work undertaken by me for the financial year ended 31 March 2019.

In giving my opinion it should be noted that assurance can never be absolute and it is not possible to give complete assurance that there are no major weaknesses. My opinion is based on the work undertaken during the year, including the outcomes of follow up work.

My overall opinion is that, for the systems reviewed by the In-House Service, audit testing has confirmed that controls are generally working effectively in practice although some work still needs to be completed to improve processes in some systems. Some ongoing issues with the Sundry Debtors system remains the main concern.

Where internal audit work has identified scope for improvements, the management response has been appropriate and action plans agreed.

Only one case was raised under the Confidential Reporting Code in 2018-19. Following a brief investigation it was concluded that the issue queried by the employee was not a breach

of policy and no further action was taken. Another case originally raised in 2017-18 was also concluded during the year.

Taking into account all the work undertaken during the year it is therefore considered that a 'Satisfactory' opinion can be given.

The Annual Governance Statement (AGS) process separately records any additional issues reflecting the assurance provided from all sources both internal and external. The AGS was reported to the Accounts & Governance Committee on 18th April 2019.

Staff co-operation and declaration of audit independence

The successful achievement of the audit plan is dependent on the contribution of the Council's staff as audit clients. I would like to record appreciation for the involvement and commitment of staff, and for their critical appraisal of recommendations made during the year.

The Local Government Application Note which CIPFA issued to support the PSIAS requires an annual declaration of audit independence. A restructure of the Council took place in 2018-19 which resulted in the Internal Audit function coming under the responsibilities of the Assistant Director Finance, which effectively made this post Head of Internal Audit as well. The Assistant Director Finance, also has direct management responsibility for a number of the main financial systems audited each year. This could potentially be perceived as being a 'conflict of interests' and threaten the independence of the function. There are however provisions in the Council's Constitution which give Internal Audit the right to report to a higher level if it is considered that the independence of any audit findings or recommendations is being threatened by the actions of the Assistant Director. No such issues arose in 2018-19 and no audit findings and recommendations were considered to have not been compromised. I am therefore able to provide the required declaration of independence.

Gary Little,
Senior Auditor, Eden DC 'In-House' Internal Audit Service.

1. SERVICE BACKGROUND

1.1 Reporting Lines

The in-house service operates as part of the Council's Internal Audit service reporting to and under the direction of the Assistant Director Finance in his role as Head of Internal Audit. Direct access to the Chief Executive and elected Members is also permitted by the Accounts & Audit Rules if this is considered necessary.

The Senior Auditor has monthly meetings with the Assistant Director and regular communication at other times as necessary to discuss progress on audit work and other related issues. Liaison meetings with External Audit are also attended as considered necessary.

The remainder of the Internal Audit function is undertaken by TIAA Ltd under the control of an Audit Director and the direction of Eden's Assistant Director Finance as 'Client Officer' and 'Head of Internal Audit'.

1.2 Professional Standards

Audit work is delivered in line with the mandatory Public Sector Internal Audit Standards and the associated CIPFA Local Government Application Note.

1.3 The Audit Process

A risk-based systems approach is undertaken to identify, and evaluate the application of financial and other management controls.

A range of compliance and substantive testing is undertaken to verify the consistent application of expected controls and all working papers are maintained in electronic format with extensive use of hyperlinks to aid review and provide easy access to evidence of audit findings.

As there is only one internal auditor directly employed by the Council, all in-house audit work is undertaken by that person. Any specialist or particularly complex assignments which may arise would be allocated to TIAA Ltd, who as an internal audit provider, have the benefit of access to audit staff with a wide range of skills and experience.

2. REVIEW OF PERIOD

2.1 Progress against the 2018-19 Annual Plan

As noted above all planned 'fundamental systems' work was not undertaken during the year although adequate coverage for all systems was obtained. The reasons for this and an analysis of the reports issued during the year are included in Appendix A.

2.2 Liaison with External Audit

Liaison with external audit is undertaken throughout the year as required and they have had full access to internal audit working papers to assist in the delivery of their work.

The aim is to maximise the benefit from the Internal Audit service by avoiding duplication of coverage and facilitating where appropriate the external audit approach, in order to provide maximum assurance.

3. ANNUAL STATEMENT OF ASSURANCE

At the conclusion of each audit an overall opinion on the level of assurance is given based on the findings arising from the audit with regard to Governance, Risk Management, Control Processes and the probability of significant error, fraud and non-compliance. An assurance rating is given to each of these categories along with a rating for each system objective identified and agreed with management. The following classification of assurance levels has been adopted:

Assurance Level	Definition	Basis of Opinion
Substantial	There is a sound system of internal control in place which adequately supports the achievement of system objectives and minimises risk.	Audit testing indicates that controls are consistently and effectively applied and no weaknesses were identified. However as audit work is primarily sample based 'complete' assurance cannot be given.
Reasonable	There is a reasonable system of internal control which should ensure that system objectives are generally achieved but some weaknesses have been identified which may result in errors or performance issues in certain areas.	Testing has identified that whilst there is generally a good system of internal control, there are some areas where controls could be improved or are not always effectively applied. Consequently a small number of errors may also have been identified.
Partial	Although some areas may be satisfactory, an unacceptable number of weaknesses have been identified across the control system which means there is a high risk of failure of meeting all objectives and there is the possibility of loss, damage to reputation or fraud in some areas.	The results of the audit work indicate that an unsatisfactory level or range of internal controls are in place or that controls are not being operated effectively and consistently. This is likely to be evidenced by a significant level of error being identified by audit testing.
Minimal	The overall system of control is weak and the system is vulnerable and open to error and abuse. There is a high risk of system objectives not being achieved and / or the achievement of objectives cannot be substantiated.	Significant non-compliance or a lack of adequate controls was identified leaving the system vulnerable to error and abuse. Control arrangements are of a generally poor standard. High numbers and / or values of errors have been identified.

Assurance ratings given to the audits completed during the year were as follows:

Reports Issued		Substantial Assurance		Reasonable Assurance		Partial Assurance		Minimal Assurance	
		No.	%	No.	%	No.	%	No.	%
Final	6	1	17%	5	83%	0	0%	0	0%

The conclusions and assurance levels specified for each audit are used to support the Council's governance review arrangements, as required by the Accounts and Audit Regulations 2015.

4. RECOMMENDATIONS MADE IN THE YEAR

4.1 Recommendation Categories

Audit recommendations are categorised by three priority levels i.e.

Priority	Definition
Priority 1	The recommendation addresses a serious control weakness which if not corrected is highly likely to result in a failure to meet the relevant system objective and it is considered there is a high risk of loss, error, fraud or reputational damage
Priority 2	The recommendation addresses a weakness in control procedures which could result in failure to meet the stated system objective and / or may result in loss, fraud, error or reputational damage
Priority 3	A recommendation which is concerned with improving operational procedures or efficiency but does not necessarily relate to an identified control weakness and is unlikely to result in additional risk if not actioned.

4.2 Recommendations made

The following table summarises the number of audit recommendations made during the year and the management responses, analysed in accordance with the above categories.

Recommendations Made	Total	Priority 1	Priority 2	Priority 3
	6	0	1	5
Fully Accepted	6	0	1	5
Partly Accepted	0	0	0	0
Not Accepted	0	0	0	0

The Priority 2 recommendation and four of the Priority 3 recommendations are ones from previous years which remain outstanding or partly outstanding.

5. QUALIFICATIONS TO THE OPINION

Internal Audit has had unrestricted access to all areas and systems across the authority and has received appropriate co-operation from officers and Members. There are therefore no qualifications to the opinion given.

Reports Issued for 2018-19 and Review of Work Undertaken

Audit Assignment	Report Status	Assurance
Fundamental Systems*		
Main Accounting System	Final	Substantial
Payroll	Final	Reasonable
Creditors & Purchase Ordering	Final	Reasonable
Income Collection	Final	Reasonable
Sundry Debtors	Final	Reasonable
Treasury Management	Final	Reasonable
Audit Consultancy Reports		
Income Collection & Related Software Systems	See Audit Consultancy Work below	
Payment Card Industry Data Security Standards		
Sundry Debtors System including Periodic Income		

*Periodic Update Reports on work undertaken on the Fundamental Systems audits were also issued in August 2018, October 2018 & January 2019.

There was an over-run of 17 days in planned audit time on the 'fundamental' systems due to a number of factors including:

- Updating and revising some system documentation and test records due to various changes in the systems audited.
- Undertaking further investigation of some problems and issues identified during audit testing in order to provide a sufficiently supported statement of assurance or determine appropriate recommendations.
- Extension or additions to planned sample testing due to various factors including system changes, extensions to system provision and increases or variations in transactions.

Just over 17 days planned audit work was also not completed. This can be broken down as follows:

Main Accounting System – 4 days

Payroll – 4 days

Creditors & Ordering System – 9 days

This was due to a number of factors including:

- Delays in starting planned work for 2018-19 due to the need to complete sufficient work for 2017-18 in order to provide an adequate basis for issuing the required statement of assurance. This took 22 days of audit time at the beginning of 2018-19. Delays in completing the 2017-18 Plan had arisen due to the need to investigate a number of referrals under the Confidential Reporting Code.
- The over-run of 17 days on the planned work that was undertaken as noted above.
- Additional time spent on work in connection with systems that were the subject of audit consultancy work during the year. This time was mostly covered by the 30 days allocated for Consultancy work in the audit plan, however the need to replace the Council's Income Collection software by September 2019 (see below) meant that some 'time critical' work in connection with this had to be given priority over completion of the audit plan.

Audit Consultancy and 'Other' Work

Income Collection Software Systems

Previous Annual Reports have noted the Senior Auditor's ongoing involvement with the PARIS System due to acting as Project Manager for upgrades undertaken in 2013-14 and 2017-18. This arose from a similar role when the new Financial Management System was introduced in 2004-5 which also included setting up the PARIS system.

The Audit Consultancy Report issued last year recommended that the Senior Auditor's involvement with the system was continued due to the knowledge already held and future work that would be required to link PARIS with the Council's Digital Integration Project. Whilst this work is not strictly of an audit nature it does provide useful detailed knowledge of the operation of the Council's income collection processes which support the audit opinion given to the system and provide a firm basis for any audit consultancy work undertaken. Audit Independence is maintained by day to day system management being undertaken by an officer in the Revenues & Benefits section. The report was subsequently approved by Accounts and Governance Committee.

In June 2018 however the Council were informed that the PARIS software had been purchased from Northgate by Civica. The following month notification was received that PARIS would only be supported by Civica until existing contracts expired. In the Council's case this is September 2019. Civica consequently offered to replace PARIS on a 'like-for-like' basis with their own CivicaPay software.

On the basis of the Senior Auditor's previous involvement in such projects as noted above he was requested to 'project manage' the implementation along with the Systems and Quality Manager. Arrangements for this and how the new software could be incorporated into the ongoing Digital Innovation Project took up the majority of audit consultancy time allocated for the year.

Payment Card Industry Data Security Standards (PCIDSS)

Work is being undertaken to help the Council meet the latest Payment Card Industry Data Security Standards (PCIDSS). Although closely linked to the PARIS system due to this being the method by which the Council takes card payments, the standards are also concerned with network, server and information security. The CivicaPay software although being provided on a 'like-for-like' basis to PARIS, is actually a 'hosted service' and runs on servers located in one of Civica's Data Centres. Many PCI-DSS requirements will therefore be removed from the scope of the Council's compliance when the system goes live as card data is no longer processed over its network. Some areas will still need to be addressed however, particularly the taking of card payments by Council staff over the telephone. Civica did offer a third party product as part of the new software implementation but this was at an additional cost. Two different cost options were also provided depending on the level of functionality required. There would have been some benefits in undertaking this work as part of the CivicaPay implementation but it was considered that a satisfactory business case needed to be prepared to justify the cost of this additional software in comparison to the volume of card transactions actually taken by the Council in this way. There are currently other controls in place which partly mitigate the risk to the Council in this respect and the use of such software is currently not a requirement of the payment card providers. It is considered that it is only a matter of time until such requirements are specified however and consequently the issue will be reviewed further as part of the work to be undertaken in 2019-20.

Debtors System & Periodic Income

Internal Audit reports in recent years have highlighted various concerns with the debtors system particularly 'periodic income'. Changes to the debtors system in December 2015 also raised a number of control issues and resulted in an urgent request from audit to address these. Considerable work was undertaken in this respect and some improvement has taken place but concerns still remain in this area. A 'Recurring Card Payments' module was offered by Civica as part of the new software implementation which could potentially solve a number of the problems identified in respect of the raising of periodic income invoices and streamline the invoice raising process overall. As this was not part of the 'like-for-like' replacement of PARIS however, there was an extra cost to this module and it was considered that an appropriate business case needed to be built which considered likely take up by customers and how this could be integrated into the Digital Innovation Project before a request was made for additional funding for this.

This will be considered further in 2019-20 along with a review of other debtors system processes in conjunction with the shift in Debtors System work due to take place in 2019-20. (See Recommendation SD14 in the Sundry Debtors System Internal Audit Report for further information).

Audit Performance & Quality Assurance

Aspect of Performance	Performance Measured	Performance Indicator	Target	2018-19	2017-18
Productivity and Operations	Completion of internal audit plan	% of planned audit days not achieved	0%	17% (22/130)	33% (43/130)
	Audits are completed on time	% of audits undertaken completed in planned time	100%	0% (0/6)	0% (0/6)
	Audit reports are issued promptly on completion of the audit	% of draft reports issued within 10 working days of completion of audit work.	100%	100% (6/6)	100% (6/6)
	Effectiveness of recommendations made	% of recommendations made which are fully accepted.	100%	100% (8/8)	100% (8/8)
	Effectiveness of audit follow-up	Number of accepted recommendations due to have been implemented that are still outstanding.	0	0	3
	Items in the Action Plan are implemented by the due dates	Items actioned on time.	✓	✗	✗
Staff Performance	Progress & performance targets met	Staff Appraisal Scheme – Satisfactory comments re achievement of objectives.	✓	Appraisals not completed in 2018-19	Appraisals not undertaken in 2017-18
	Absence	Number of days sickness and other absence	0	6	0
Quality	Adherence to professional standards	% Compliance with PSIAS / LGAN	100%	Yes=91.3% Partial=3.3% No=1% N/A=4.4%	Not Fully Assessed / Documented
		Integrity, Objectivity and Competency of the auditor confirmed by auditee for all audits undertaken.	✓	✓	✓
	Review of 'the effectiveness of the system of internal control'	Review approved by Accounts & Governance Committee	✓	Final authorisation by AGC July '19	✓
	The External Auditor is able to rely on the work of Internal Audit	Grant Thornton confirm reliance on the work of Internal Audit	✓	To be confirmed	✓
	Audit provides assurance to managers on system of internal control	% of Satisfaction Questionnaires with a rating of 3 (Good) or more	100%	100% (6/6)	100% (6/6)
Client Satisfaction	Managers are satisfied with the overall conduct of each audit	Satisfaction Questionnaire average rating of 3 (Good) or more (includes all categories)	3.00	3.5 (average of 28 Ratings)	4.0 (average of 28 Ratings)