



Name of meeting: Corporate Governance & Audit Committee
Date: 22nd JULY 2020

Title of report: Annual Report of Internal Audit 2019/20 & issues for 2020/21

Purpose of report; To provide information about Internal Audit activity and the effectiveness of the system of internal control, and conclusions on the control environment and assurance provided in 2019/20, and on matters that relate to Internal Audit activity in 2020/21

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Not applicable
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports) ?	Not applicable
The Decision - Is it eligible for "call in" by Scrutiny?	Not applicable
Date signed off by Director & name Is it also signed off by the Service Director for Finance? Is it also signed off by the Service Director for Legal, Governance & Commissioning?	Not applicable
Cabinet member portfolio	Not applicable

Electoral wards affected: All
Ward councillors consulted: Not applicable
Have you considered GDPR; Yes
Public

1. Summary

- 1.1 To provide information about Internal Audit activity in the year to 31st March 2020 (both at Kirklees Council and the controlled subsidiary organization, Kirklees Neighbourhood Housing Ltd) and note the outcome of the annual review of the effectiveness of the Council's system of internal control.
- 1.2 To provide an "opinion" on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control.
- 1.3 To indicate compliance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and Code of Ethics.
- 1.4 To provide an initially proposed Audit Plan for 2020/21 and to indicate priorities for the year.
- 1.5 To provide a recommended revised Audit Plan for 2020/21 that reflects timing and resourcing matters reflecting the disruption and impact of the coronavirus pandemic.
- 1.6 To approve a 2020/21 Audit Charter.

2. Information required to take a decision

- 2.1 Based on an objective assessment of the Council's framework of governance, risk management and control it is concluded that overall, the Council has sound arrangements to operate its business effectively. This is however based on the relatively limited coverage of planned audit activity, and from some unplanned work of the nature of ascertaining assurance and formed in the knowledge of an absence of material issues raised or identified in respect of other areas of operation. The opinion is based on the operations of Kirklees Council, and its wholly owned subsidiary Kirklees Neighbourhood Housing Ltd. This Committee takes responsibility as Audit Committee for both organisations.
- 2.2 However there are several observations and qualifications which are highlighted in the report which should be addressed.
- 2.3 This Committee also needs to review, and indicate that it is content as regards, the effectiveness of the system of internal control. The attached report contains material intended to assist the Committee in reaching a decision.
- 2.4 The report notes that following the external assessment undertaken at the end of the 2017/18 year (which attributed the operation with the highest standard which is "generally conforms"), assessment against the Public Sector Internal Audit Standards (PSIAS) and Code of Ethics has been undertaken this year internally by the Head of Risk as Head of Internal Audit. The assessment has been undertaken against the CIPFA recommended assessment criteria, and the outcomes from this assessment are included in the report.
- 2.5 Each year the Committee needs to consider and approve an Internal Audit Strategy & Charter. A proposed 2020/21 version is attached.
- 2.6 Two draft audit plans are included within the papers- an initial proposed plan for 2020/21 and a revised version that is considered now to be more realistic, given the operational issues resultant from the impact of coronavirus. The initial audit plan was the subject of consultation with Kirklees Strategic Directors and KNH. It was prepared before the Coronavirus crisis, based on the expectation of a full year of routine work in 2020/21. It proved difficult to commence any routine work in the first two months, with IA staff spending some time supporting other operational issues, and carrying out some on-going assurance about coronavirus related projects and issues, including those for emergency schemes and arrangements, that contain risk of fraud and irregularity. Since the middle of June 2020 progress has been made in some areas to deliver some routine work.- some of which has been slightly changed or reprofiled to achieve practicality in a virtual assessment (of essentially records stored within the IT systems within the organisation).
- 2.7 The second presented plan reflects a more realistic indication of what might be achieved during the remaining part of 2020/21. This will be somewhat reduced plan that ought to still provide a reasonable level of assurance in current circumstances. This position continues to need monitoring, and work carried out will depend on assurance provided, risk, resources and skills available. This Committee may need to consider if in the circumstances they are happy with the resource level that is available, or to seek additional resources to gain satisfaction in relation to the control environment, although in practice the ability to source the appropriate skill (externally) is likely to be difficult, expensive and

may not provide a substantial improvement in assurance. This is a matter which can be considered at a future meeting.

- 2.8 There remains much uncertainty about how the coronavirus will impact nationally, through the remainder of the year, and how the council interprets its approach. Accordingly, it is likely to be necessary to consider further amendments to the Audit Plan for 2020/21 during the year. This will be carried out initially, if necessary, under the authority of the Head of Internal Audit, with subsequent consideration by this Committee.

3. Implications for the Council

- 3.1 **Working with People** – None directly
3.2 **Working with Partners** – None directly
3.3 **Place Based Working** – None directly
3.4 **Improving outcomes for children**– None directly
3.5 **Climate change and air quality**- None directly
3.6 **Other (e.g. Legal/Financial or Human Resources)**- Although each of the sub-categorisations above suggest no direct implications, the work of internal audit covers all aspects of the Council's operations, including elements of the above, either specifically, indirectly or on a commissioned basis. The main issues relate to those areas highlighted above - where there are risks associated with basic processing arrangements and delivering sound governance and control.

4. Consultees and their opinions

- 4.1 Not applicable, although Executive Team have been consulted collectively and individually on the initial draft plan for 2020/21.

5. Next steps & Timelines

- 5.1 This report informs the preparation of the Annual Governance Statement for 2019/20.
5.2 Audit activity in 2020/21 will concentrate on major areas of risk and control, based on a prioritised risk assessment. Resources will remain available to investigate significant areas of concern on a reactive basis.

6. Officer recommendations and reasons

The Committee is asked to confirm it is content with the:

- (a) Effectiveness of its internal audit function, and to note its conformance with Public Sector Internal Audit Standards and Code of Ethics
- (b) Effectiveness of the Council's overall system of internal control
- (c) Effectiveness of the broader control environment, risk management and governance arrangements of the Council (subject to the observations contained within the report);
- (d) 2020/21 Internal Audit Strategy and Charter and approve this document
- (e) Proposed amended audit plan for 2020/21 (Appendix 3A) and
- (f) Proposals in relation to actions necessary due to the ongoing disruptions to internal audit work during 2020/21. (2.8 above)

7. Cabinet portfolio holder recommendation

Not applicable.

8. Contact officer

Martin Dearnley, Head of Risk 01484 221000 (73672)

9. Background Papers and History of Decisions

The Annual Report of Internal Audit 2019/20 is attached.

10. Service Director responsible

Not applicable.

KIRKLEES COUNCIL

CORPORATE SERVICES: RISK SERVICE

INTERNAL AUDIT

ANNUAL REPORT OF INTERNAL AUDIT 2019/20 & ISSUES FOR 2020/21

1. Introduction

1.1 This report assesses the adequacy and effectiveness of the Council's governance, risk management and control environment arrangements during 2019/20 and provides a summary of the activities and performance of Internal Audit during the year. The report also recommends a risk-based Audit Plan for 2020/21 and discusses other issues that relate to the year. This report relates to both Kirklees Council and its wholly owned subsidiary Kirklees Neighbourhood Housing Ltd (KNH).

2. About Internal Audit

2.1 The scope of Internal Audit's activity is established by the Council's Financial Procedure Rules and the Internal Audit Strategy and Charter. These rules include a right for Internal Audit to have free and unrestricted access to carry out work as is considered appropriate by the Head of Internal Audit (the Head of Risk)

2.2 Internal Audit reviews the Council's assurance framework for governance, risk management and business systems and controls. Some assurance is obtained through the work of other agencies - such as health and safety.

Internal Audit time is spent

- (a) Assessing arrangements for financial control.
 - (b) Assessing arrangements for other business and organisational controls – such as IT.
 - (c) Investigating allegations that the Council's business activities may not be operating in the ways intended.
 - (d) On work related to contracting strategy and contractor appraisals.
 - (e) To a very limited extent on value for money.
 - (f) Resolving a range of finance and control related issues (the most significant of which are reported in the quarterly reports).
 - (g) On aspects of fraud prevention - such as the biennial National Fraud Initiative (although customer fraud is currently investigated by others).
 - (h) Contributing generally and providing advice to Council wide and Service specific matters related to governance, risk, financial and business control.
- Whilst Internal Audit work can provide some assurance about business processes, it is not resourced in a way to assess the judgement of other professionals.

2.3 Quarterly Reports on the activities of Internal Audit have been provided to the Corporate Governance and Audit Committee. These reports provide

- (i) an opinion about the level of assurance that can be taken from each planned audit on the arrangements in operation at the time of each audit.
 - (ii) an opinion about follow-up of earlier Internal Audit work.
 - (iii) information about investigations, and other internal audit activity.
- Implementation of the agreed recommendations should provide a satisfactory degree of control in all cases.

3. Summary of Audit Work in 2019/20

3.1 Most audit work concludes with an assurance based opinion,

Opinion	% in year	
Substantial assurance	27	Positive
Adequate assurance	55	
Limited assurance	18	Adverse
No assurance	0	

3.2 18% of work concluded with an adverse opinion against a corporate target of 20%. This was 22% in 2018/19.

3.3 There were some areas of significant operation about which only limited assurance could be provided this year. These included certain aspects (but not all of):

- Key controls in the accounts payable arrangements
- IT procurement
- Safety management (asbestos, fire safety, and wider aspects in KNH/housing management systems)
- Petty Cash
- The ParentPay system (used to collect school meals and other income)
- Those who have no other recourse to public funds
- Major contract management

There was some strong improvement in arrangements for SAP Security and User Access Controls, although there is still a need for improvement. Limited progress had been made in relation to the improvements of recording of mandatory training and in relation to Corporate Performance management information.

3.4 Information on reported audit opinions in the last five years is shown in the table below

	2019/20	2018/19	2017/18	2016/17	2015/16
Days spent on audit work	1,376	894	976	1,372	1,745
Financial and business processes and systems examined	47	25	28	54	80
Location, establishment, schools audits undertaken.	29	34	38	48	55
Follow up audit work	13	9	18	19	18
Investigations into irregularity	7	2	5	5	6
Management, governance or value for money studies Grant audits, consultancy, projects	16	19	15	26	10
Completed formal tasks	112	89	104	152	169
Overall proportion of work offering limited or no assurance	18% All limited assurance	22% 21% Limited assurance 1% no assurance	22% All limited assurance	19% 17% limited assurance 2% no assurance	24% All limited assurance

Note that additional time was spent on council and KNH work during 2019/20; this was partly as a result of slightly less time being spent on other clients for operational reason (which will need to be provided back in 2020/21) and some additional resource availability more work was achieved.

See also Appendix A

3.5 Assessing only the new work on Council operations the level of activity found to be inadequate was 16%.

3.6 Of follow up work 69% achieved a substantial or adequate assurance outcome. This is an improvement on the 2018/19 (when it was 44%) Addressing agreed actions are an important part of a management response to any adverse audit findings. Some work was also undertaken to identify if recommendations made as a part of work that identifies a positive outcome are implemented. The work completed suggested that this is substantially the case, as 85% of those contacted confirmed all the agreed recommendations had been implemented and the remaining four auditees provided an update on the matters outstanding.

3.7 There were a small number of investigations reported during the year, detailed in the quarterly reports that included reports about adult day services, an outdoor centre, several children's nurseries, Kirklees Neighbourhood Housing and the national fraud initiative

3.8 Audit time has also been spent on:

- Support to governance and control arrangements generally.

- Preparation of the Annual Governance Statement and monitoring progress in relation to matters identified.
- Monitoring and updating Contract Procedure Rules (CPRs) and Financial Procedure Rules (FPRs).
- Financial appraisal and scoring of applicants for contracts and other aspects of assessing or approving the Council's contractual arrangements.
- Support to the Information Governance Board, and implementation of GDPR /Data Protection Act
- Forming a part of the Whistleblowing assessment process by carrying out initial assessment of whistleblowing to decide on the extent to which an allegation may have enough merit to justify further investigation.
- Verification/certification relating to grants, such as Highways Incentive Funds.
- Support to corporate projects (such as waste management, housing strategy)
- Assessing write off arrangements/testing proposed debt write-offs.
- Monthly pay project
- Troubled Families grant analysis
- SAP control updates

3.9 Audit follow up work confirmed that the Council has made significant progress in implementing its new Risk Management Statement. A corporate risk matrix lists the fairly stable set of risks and threats to the organisation, albeit it cannot predict or significantly assist in national emergencies as is currently/has recently been ongoing. In normal circumstance, the corporate matrix is reviewed quarterly by the Risk Panel, Executive Team (ET), and (informally) by Cabinet. A detailed directorate-based matrix that is completed by directors and their senior managers and includes directorate risks and some cross-council risks implemented at service level is now in its final stage of implementation. This process has been subject to some quality checking, and the intention had been that a complete and acceptable version of the matrix would be achieved by the end of March 2020, although this target has not been achieved due to the prioritisation on other matters. Although the process can be enforced, it is still not clear that there is cross council engagement, and the service matrix system still cannot be relied upon as the core source of the quarterly reporting of emerging risks and threats. This remains a task subject to separate information collection from directors, the risk panel and various sources, although there is still good engagement in the reporting process to ET and beyond. Completion of the current planned work should substantially improve the ability of internal audit to rely on risk management arrangements as a source of both its assurance and its planning, although this is not fully embedded for the start of the audit year 2020/21. Good practice expects that any Internal Audit planning will recognise the risk management processes of the organisation. However, where risk management arrangements do not provide an assured picture, audit planning is adjusted to recognise this.

3.10 Although the Council used a risk-based audit plan in achieving the coverage of business and activity areas on which this opinion is based, the assurance framework delivered by Internal Audit is necessarily not comprehensive. Whilst coverage of financial (and commercial) business process and governance is risk based, it does not assess the areas that involve professional judgement, particularly in relation to care related services and some other assessments that

relate to individual needs. The Corporate Governance & Audit Committee can, and does, gain wider governance assurance from these other sources, although not all have routine arrangements for reporting and this arrangement is not formally documented and reviewed. Those that are formally covered are listed in Appendix 2, but there are other potential sources of assurance.

- 3.11 From April 2019, the audit work that relates to the housing and construction management organisation Kirklees Neighbourhood Housing Ltd (a wholly owned subsidiary of the council) has been fully integrated into the planning and audit delivery and reporting structures of the Council. There is still a requirement to carry out a small amount of work necessary to provide assurance to the board of the company as a legal entity, but beyond that all Internal Audit work is fully in line with council reporting and governance.
- 3.12 Work continues to be performed for Kirklees Active Leisure. Outcomes are reported to KAL's own Audit Committee. Audit work is also carried out for West Yorkshire Fire & Rescue Service (WYFRS), who make substantial use of Kirklees financial systems., WYFRS has its own Audit Committee.
- 3.13 There was only very limited working with Calderdale Council's Internal Audit team during the year.
- 3.14 The intention had been to complete 101 planned audit tasks this year. The number of planned tasks achieved was 76, in addition to which 22 formal and initially unplanned tasks were completed making a total of 98 completed tasks. (97%). (last year, 89 planned and unplanned). Not all of these attracted an audit opinion. There were 6 planned pieces of work in progress at the year-end which will be reported in 2020/21 once complete. Under achievement was a consequence of several factors including one very time-consuming investigation, and other work taking longer than envisaged.
- 3.15 Staffing in the team was fairly stable. No employees left, and a trainee auditor was recruited. An additional member of staff -who is a trainee accountant- has joined the team temporarily from the Accountancy function. There are 10 substantive staff (8.4 full time equivalents), one placement student, and the secondee from accountancy added c 0.4 fte capacity, making a total of 9.7 fte of staff in 2019/20, about 1.25 fte was devoted to services for other clients.(3.12)
- 3.16 As noted in 2.1, the Financial Procedure Rules and the Audit Strategy and Charter document allow Internal Audit unrestricted access to consider areas of activity as they see fit in providing this audit opinion. At no point during the year has any Officer or Member sought to influence or restrict the scope or areas of activity of any piece of work. There was an attempt to influence by a member of a school governing body. This appears to have resulted from a misunderstanding about the nature of the work commissioned and did not detract from the achievement of the objective. The conclusions reached in all of the work presented are those of Internal Audit.
- 3.17 Internal Audit operates within the Public Sector Internal Audit Standards (PSIAS), which is a derived form of the international internal auditing standards.

Internal compliance testing indicates that the operation was in accordance with PSIAS standard during 2019/20. The function was subject to an external assessment at the end of the financial year 2017/18. The assessment concluded that the activity operated at the highest standard – “generally conforms” to the PSIAS and Code of Ethics. Issues raised related to the time devoted by the head of internal audit, the post holder’s role in relation to risk management, training and skills, and performance indicators, including customer feedback. A further external assessment will be required during 2022/23. Appendix B provides additional information.

- 3.18 During 2019/20 the Head of Risk carried out some wider organisational duties that might be considered to conflict with the purely independent role of the Head of Audit. These relate to roles in relation to council corporate risk management processes, supervision of the insurance function, and project advice relating to council investments. Any conflicts are handled by independent reporting, and the conflict is stated in any internal audit reports- such as the quarterly reports.
- 3.19 From work during 2019/20 many of the assessments of the Council’s governance, risk management, financial and business controls that were examined were sound and effective. However, reflecting resource availability, coverage remains quite limited. Nevertheless, it is concluded that (subject to the observations above) the Council can be considered to have an adequate control environment.

4. Performance Measures of Internal Audit

4.1 There is very little comparative benchmarking available about the costs of Internal Audit. Comparison of staffing numbers locally suggest that taking account of Council (and other) activity, the Kirklees IA team is somewhat smaller than others, some of which have recently looked to strengthen their internal audit coverage.

4.2 The main performance statistics for the year are:

	Target 19/20	Actual 19/20	Actual 18/19	Actual 17/18	Actual 16/17
Work completed within time allowed	63%	80%	50%	77%	87%
Draft reports issued within 10 days	90%	85%	92%	93%	90%

The proportion of work completed within the allocated time was disappointing. This may reflect tasks becoming more complicated, unrealistic time expectations for tasks, a lack of cooperation from some clients, or the need for better time management by team members.

There were two other performance targets:

Target - 90% of the Audit Plan achieved. Actual was 75% (97% if unplanned and substitute audits included).

Target - 90% customer satisfaction. A new online/email-based system was trialled in the hope of improving customer feedback. The outcome from this changed process was not a substantial improvement on earlier arrangements, with a reasonable rate of responses from schools, and limited engagement otherwise. The limited engagement did produce largely positive feedback.

A sample of work is quality checked against the achievement of a number of standards. Variances are noted and investigated/corrected, although a piece of work can achieve the standard without every feature being correct. The work tested (6% sample) during 2019/20 met the overall standard.

5 Effectiveness of the system of Internal Control

- 5.1 The Accounts & Audit Regulations (England) 2015 require an Authority to conduct an annual review of the effectiveness of their system of internal control. An understanding of the arrangements of Internal Audit supports the ability to utilise the opinion of the Head of Internal Audit on the internal control environment as a key source of evidence in the Annual Governance Statement. As noted previously, the systems of assurance about internal control come from a wider source than just internal audit, although it is a primary source of assurance.
- 5.2 Financial Procedure Rule 5.6 requires the Head of Audit & Risk to review the systems of Internal Audit on an annual basis. The Public Sector Internal Audit Standards (PSIAS) make it a responsibility of the Head of Internal Audit to carry out periodic internal reviews (see Appendix B) and every 5 years have an external review of the Internal Audit function and report these to this Committee. The standard is complex and the recommended evaluation criteria (as codified by CIPFA) are quite cumbersome, and some are difficult to evaluate.
- 5.3 Members can gain assurance from a number of routes including their assessment of this and other reports (particularly the four quarterly reports). They can also gain assurance using factors such as performance indicators, quality assurance and consultation with senior management, although it is acknowledged that for 2019/20, again, this information is quite limited.

6. Internal Audit in 2020/21

- 6.1 Every activity will still be in view for internal audit, albeit this will be over a timescale of longer than 5 years. Strategic priorities for internal audit will continue be to:
 - a) Look at high value or high-risk activity and core systems and basic financial operations
 - b) Identify and document the wider assurance environment that operates across the organisation and determine if additional processes are needed to achieve a full set of entity control and assurance.

- c) Complete and (hopefully) embed the new approach to risk management
- d) Ensure basic compliance with processes.
- e) Carry out work contributing to the organisational objective of understanding and improving value for money.

Audit work will be performed in accordance with the Audit Strategy and Charter, the 2020 version is shown at Appendix 1 for consideration and approval.

Appendix 2 contains the key financial, operational and business control systems within the organisation, that particularly need to be subject to routine assessment.

- 6.2 From the beginning of the financial year 2020/21, the Council was operating in a fundamentally different way, as a result of the coronavirus epidemic. This meant that it was not possible to undertake routine internal audit work. During this time internal audit staff continued to work to ensure control arrangements were maintained, particularly in relation to the governments substantial business rate grant scheme, and a subsequent discretionary scheme. From June it was possible to recommence some routine work, although depending exclusively on the assessment of electronic records. (This is now most transactions. There are some paper original records, and the point at which they are translated into electronic form represents a risk).

Appendix 3 contains a draft audit plan that would have been presented, based on anticipated resource availability in a normal year. However, the disruption to much of quarter 1, and the ongoing practical limits of operations- which seem likely to apply at least until the end of quarter 2, mean that a revised, and reduced, audit plan has been produced – Appendix 3A. This seeks to comply with CIPFA/PSIAS recommended practice with an emphasis on at least achieving coverage of core areas of business control.

When a degree of normality returns, there may also be some need to review, assess and possibly investigate issues that have arisen during the emergency period, with a view for example to supporting /evidencing costs and grant claims from government.

Accordingly, there is likely to be a need to further re-prioritise the proposed work and tasks based on need. Nevertheless, at some stage it should be possible to carry out a proportion of the agreed plan (based on resources and skills available).

- 6.3 There are no Service specific audit plans, although operational staff, heads of service and directors are still expected to participate in audit planning, delivery and response to findings. The plan includes some work designed to enable the Kirklees Neighbourhood Housing Ltd board to discharge their statutory responsibilities.

The performance targets for Internal Audit are at Appendix 4.

- 6.4 During 2002/21 it is also intended to look at the council's arrangements in respect of fraud awareness, prevention, and investigation, which may involve some internal restructuring. It is also necessary to look at the council's arrangements for assessing value for money in its broad operation, an area of activity that it has been acknowledged it has somewhat under-resourced in recent years.
- 6.5 It is intended that a number of reports will thus be presented during the year in relation to;
- (a) overall assurance provision and risk from current internal audit arrangements, and alternative options,
 - (b) overall arrangements for fraud management, and alternatives
 - (c) overall arrangements for quantifying and analysing value for money

Prior to the recent national crisis, the council's senior management have been receptive to proposals for additional resources, in relation to (a) and (c) in particular, recognising that the council has not been investing sufficiently on some aspects of corporate support, although it is unclear how local or more importantly national finances will be compromised from the very high costs of addressing the current national emergency.

- 6.6 Within the current resource availability, whilst the scope will still exist to carry out some significant investigations and consultancy tasks, there is an overriding need to achieve enough assurance-based coverage, as is a requirement of the Public Sector Internal Audit Standards. This may mean that there needs to be discussion about additional resources in the event of serious multiple demands for activity, although the ability to effectively achieve and deliver this is likely to be difficult.
- 6.7 Internal Audit will continue to work with the Calderdale Internal Audit team where appropriate and likely to bring mutual advantage (or to share skills or experiences), in 2020/21.
- 6.8 There were some minor changes to the Public Sector Internal Audit Standards for 2019, and the CIPFA (Chartered Institute of Public Finance & Accountancy) recommended assessment criteria were revised, although they were neither simplified nor improved.
- 6.9 CIPFA produced a new statement on the Role of the Head of Internal Audit in spring 2019. Nothing in this requires alterations in the Council and Internal Audit's current practices, but it emphasises that the responsibility for an effective audit function is a shared responsibility between the organisation, and its Head of Internal Audit, with the organisation recognising the importance of adequate and effective arrangements for governance, risk management and internal control, and the head of internal audit ensuring an independent function looking to achieve best practice, that effectively engages with the organisation and the Audit Committee.

7. **Conclusions**

- 7.1 This report has summarised the activities of Internal Audit during 2019/20. Detailed information has been provided to Corporate Governance & Audit Committee during the year.
- 7.2 There is sufficient evidence to demonstrate that the Council's system of governance, risk management and internal control is effective and that the opinion of the Head of Internal Audit on the internal control environment can be relied upon as a key source of evidence in the compilation of the Annual Governance Statement, although there are caveats;
- (a) That the assurance coverage is risk based and not absolute across the entire range of organisational activity
 - (b) Other matters as described in this report.
- 7.3 The proportion of audit work which resulted in an assessment providing at least adequate assurance is 82%. The remaining 18% consists of 18% "limited assurance", with no (0%) "no assurance" this year.
- 7.4 There are no areas where, following audit recommendations, management have formally chosen to refuse to implement recommendations for action (and accordingly overtly accepted the potential consequences as a risk).
- 7.5 The opinion from the work performed - the scope of which does not presently cover every area of entity risk - is that, although there are some weaknesses in some systems of control, the overall framework of the Council's governance, risk, business and financial systems, processes, controls, and its management of assets, remains sound.
- 7.6 It is concluded that overall, the Council has an adequate and effective control environment.

8. **Annual Governance Statement**

- 8.1 Information generated by Internal Audit forms a key part of the Council's assessment of the quality of its organisational and business controls and the degree of assurance that can be placed upon their operational effectiveness. This information is used in preparing the Council's Annual Governance Statement which accompanies the Statement of Accounts.
- 8.2 The positive opinion that the Council's arrangements provide an adequate and effective control environment needs to be considered in the context of the breadth of assurance provided by Internal Audit, and the comments contained in this report. There are a number of areas that might appropriately be escalated to the Annual Statement of Governance and these are covered in the separate report to be considered by the Committee. These include the broader assurance framework, control arrangements for creditor payments, and matters related to corporate safety and Kirklees Neighbourhood Housing Ltd.

Contact Officer

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Appendix A

DETAILED PERFORMANCE STATISTICS FOR 5 YEARS

	2019/20	2018/19	2017/18	2016/17	2015/16
Number of days spent on planned and unplanned audit work	1,376	894	976	1,372	1,745
Number of financial processes and systems examined	32	11	16	42	55
Percentage offering limited assurance/ *unsatisfactory.	16%	27%	44%	19%	20%
Number of location/ establishment audits undertaken.	0	0	3	14	23
Percentage offering limited assurance/ *unsatisfactory.	n/a	n/a	0%	21%	13%
Number of school audits undertaken	29	34	35	34	32
Percentage offering limited assurance/ *unsatisfactory.	10%	6%	3%	18%	28%
Follow up audit work carried out	13	9	18	19	18
Percentage offering limited assurance/ *unsatisfactory.	31%	55%	44%	21%	33%
Number of business control audits undertaken	15	14	12	12	25
Percentage offering limited assurance/ *unsatisfactory.	27%	36%	18%	17%	28%
Number of investigations into irregularity	7	2	5	5	6
Number of management governance or value for money studies	3	0	4	26	2
Number of grant audits, consultancy, projects	13	19	11		8
Completed formal tasks	112	89	104	152	169
Overall percentage of reported audits providing only limited assurance/ *unsatisfactory (corporate target 20%)	18%	22%	22%	19%	24%

Appendix B

Quality Assessments and Reviews

Recommendations from the External Assessment of Internal Audit 2018

Actions linked to these matters were reported to Corporate Governance & Audit Committee on 25th January 2019

	Recommendations	Progress
1	Time devoted by the head of internal audit to the strategic and operational management of the function.	The 2019/20 outcome is similar to that in 2018/19 See table that follows
2	Promoting a split between the creation and management of risk information, and the separate roles of internal audit in challenging entity risk identification and assessment and supporting this Committee in its role in overseeing risk arrangements.	Head of Risk continues to have role in risk management. There is a clearer set of other factors in Risk Management, such as the risk panel. Further follow up provided positive assurance in relation to risk management
3	Accessing the skills necessary to address speciality work areas (e.g. cyber IT) and more generally to secure a sustainable workforce. (2.1).	Recognition that super speciality skills not practically available, but as a recognition of workforce development trainee auditor/accountant recruited in 2019, and a further post (shared with accountancy) in 2020
4	Increasing the number of performance measures that are used to assess the effectiveness of internal audit (3.1)	Some additional information provided for those charged with governance
5	The need to improve feedback/ client engagement information (4.2)	New survey arrangements were no more successful than previous arrangements. More direct engagement will be attempted in 2020/21
6	Making sure that process documentation is fully completed (8.1)	Ongoing supervisions and quality checking

Time spent analysis by Head of Audit & Risk		2019/20	2018/19
		% all year	% all year
Specific IA projects and investigations		15	17
General Advice	Childrens	1	3
	Adults & Public Health	2	3
	Place	17	12
	Corporate	4	3
	KNH	8	4
Procurement & FPRs & CPRs		11	7
Risk Management		7	8
Trust Funds		9	11
CGAC advice		5	5
Management & Supervision		21	27

Annual Review of Internal Audit – 2019-Update of Progress

	Recommendations	Actions	Date	Progress
1	Need to be sure that the Audit Plan (for 19/20) is acknowledged and contributed to by Senior Management	Draft plan to be shared with Executive Team	April 2019	Draft plan shared with Executive Team, and plan modified as a consequence
2	Ensure all internal audit staff are familiar with the obligations contained within the Public Sector Internal Audit Standards, particularly in relation to ethical standards	Training of all staff	April 2019	Training carried out. Will be replicated for new employees, and refreshed appropriately

Annual Review of Internal Audit – 2020

	Recommendations	Actions	Date
1	The Covid 19 national emergency has caused some IA staff to be deployed into assisting with the processing of grant payments. (4 Ethics)	Ensure sufficient separation to be sure that there is no unreasonable conflict when independent post payment audit checking is required	Summer 20
2	The level of resource available for internal audit may be insufficient (3; Principles). There may be some skill gaps- e.g. re IT ((2010 planning)	Review IA resource and determine if it is inadequate, or the organisation otherwise understands the extent of risk	Summer 20
3	Explore potential for more rotation of assignments to avoid over familiarity (1130 Impairment)	To be considered on a personal basis based on skill and knowledge	Summer 20
4	Explore further options to obtain customer feedback (1311 assessment)	Recent changes not totally successful. Consider other options	Summer/ Autumn 20
5	Coordinate work with external auditor (2050 coordination)	To discuss with external auditor	Summer / Autumn 20
6	Is there an adequate audit brief for each audit? (6.3/2200 Engagement Planning)	To consider if client and auditor are clear about objectives, scope etc of each audit	Autumn 20

KIRKLEES COUNCIL

INTERNAL AUDIT

STRATEGY & CHARTER

2020-21

EXECUTIVE SUMMARY- INTERNAL AUDIT STRATEGY & CHARTER

1. Internal Audit supports the organisation, and its management in achieving its objectives. Its work will involve
 - a) Assurance about the internal financial and (other) business controls, and the council's broader assurance framework.
 - b) 'Consultancy' work, as commissioned, relating to business, financial and process controls and value for money, efficiency and effectiveness.
 - c) Development of anti-fraud, anti-corruption and anti-bribery measures and investigation of any suspicions of inappropriate behaviour.
 - d) Information, advice, advocacy and training in respect of best practice in achieving a high level of internal control, including Financial and Contract Procedure Rules.
 - e) Contributing to corporate/high impact projects, particularly those involving partnership and procurement.

Internal Audit coverage will apply to all of the Council's direct operations, all wholly owned or controlled organisations or subsidiaries, including limited companies, and other partnership bodies (where the Council so determines).

2. Internal Audit work will address all of the business controls of the organisation, prioritised on the basis of risk. This involves a full coverage of all aspect of the Council's operation, including financial systems, processes and activities, risk management, governance arrangements, information management and appropriate use of technology-
3. Internal Audit activity will be planned, carried out and reported within a general philosophy of providing evidence-based analysis and helpful advice to all levels of management and achieving positive consequential progress.
4. Except where otherwise agreed, written reports will provide summary information, detail on any findings of note, conclusions and recommendations to advise and inform managers of all levels.
5. Establishing effective systems of operation and implementation of audit recommendations is the responsibility of management. It is not the role of Internal Audit to act as a proxy for appropriate performance management of, or by, senior management.
6. Internal Audit will follow up the implementation of accepted recommendations in all cases where there were concerns about a system, process or activity, or where recommendations arose as a result of an

investigation. Other agreed recommendations may be followed up on a sample basis

7. Internal Audit will co-ordinate the overall corporate assessment of business controls and risk management. It will help develop and monitor the Risk Management Strategy.
8. Internal Audit will operate in accordance with the (mandatory) Public Sector Internal Audit Standards (PSIAS) and the supplementary CIPFA guidance. In particular internal audit officers will act with independence, objectivity and integrity and respect the confidentiality of organisational information.

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1. INTRODUCTION

- 1.1 Local Authorities are required under the Local Government Acts and the Accounts and Audit Regulations 2015 to have a continuous internal audit of their financial and other business controls. It will be delivered in compliance with the Public Sector Internal Audit Standards (PSIAS). This is mandatory guidance which states the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance. These standards in local authorities are supplemented by additional guidance from CIPFA that has regulatory authority for local government in the UK.
- 1.2 The PSIAS require that there is a formal Internal Audit Charter defining the purpose, authority and responsibilities of Internal Audit, which must be consistent with the PSIAS definition of internal audit, code of ethics and professional standards.
- 1.3 The main purpose of Internal Audit is to support the organisation in achieving its objectives, and particularly to play a key role in the Council's Corporate Governance arrangements in ensuring Members and Corporate Managers have adequate assurance that they are meeting their responsibilities.
- 1.4 This document has been prepared to set out:
- The objectives of Internal Audit
 - The scope of its operation
 - Its rights and responsibilities
 - The responsibility of others
 - The Audit planning process
 - The Audit reporting process
- 1.5 This Strategy and Charter will be regularly presented to senior management and reviewed regularly by the Corporate Governance & Audit Committee. Its purpose is to set out the purpose, nature, objectives, outcomes and responsibilities of the internal audit service.

2. OBJECTIVES OF INTERNAL AUDIT

- 2.1 Internal Audit's objectives can be defined as:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes” (PSIAS)

This definition goes beyond basic compliance by evaluating and improving the effectiveness of the entire risk, control and governance arrangements

(including financial and non-financial control systems). As an independent appraisal function Internal Audit can offer assurance on the effectiveness of internal control arrangements, contributing to the efficient use of resources and generally helping management to monitor performance, improve operational efficiency and target objectives. These actions will add value by supporting the organisation in achievement of the Council's objectives.

2.2 Specifically the role is to provide:

- *Assurance, principally by a review of the control environment* - The 'control environment' comprises the business systems which are operated to implement the Council's statutory obligations and its policies and objectives. This includes systems and processes, governance and decision making, and risk identification and management. It involves the review of all the major financial and accounting systems and practices, and also controls of other kinds (such as purchasing and human resources). For financial controls it involves a more detailed review of information, records, assets and other resources to identify appropriate financial stewardship. (See Appendix 1). It also includes matters relating to organisational ethics, use of technology and matters such as management of data and information .
- *Consultancy* - Undertake, when commissioned, other reviews and projects which use investigative, analytical and consultancy skills. This work can be specific or involve on-going advice and may include value for money related activity. Where this advice is provided it is given notwithstanding the responsibility to provide assurance as above. Any work performed will be accepted only within the competencies of staffing.
- *Assurance and Investigation into suspected Fraud, Corruption and Bribery* - It is essential that Internal Audit has awareness of issues of fraud, bribery and corruption, as a part of gaining assurance about the control environment (as above). In some circumstances it may be appropriate for Internal Audit to undertake investigations into suspected irregularity, fraud, or corruption. Internal Audit also prepares and maintains the Corporate Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy, and provides guidance for managers and Members and thus helps promote good corporate governance and the highest ethical standards. It also coordinates the Council's approach to the mandatory national fraud initiative. (NFI)
- *Advice* - Provide operational advice on the development of processes and systems and on the interpretation of the Council's rules (principally Financial Procedure Rules and Contract Procedure Rules).

2.3 Audit advice and recommendations are given in all cases without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.

2.4 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit advises the Council on whether effective and efficient arrangements exist, cumulating in the annual opinion

of the Head of Internal Audit, which informs the Annual Governance Statement. Optimum benefit to the Council should arise when Internal Audit work in partnership with management to;

- improve the control environment
- achieving organisational objectives.

3. INDEPENDENCE, RESPONSIBILITIES AND AUTHORITY

An effective internal audit function must be independent, objective and unbiased.

3.1 Authority

Internal Audit has authority to:

- Enter at all times any Council premises, land or location from which Council services are provided;(including those of partners and contractors)
- Have access to all property, records, documents, correspondence, data (in all forms) relating to all activities of the Council
- Require and receive explanations in respect of any matter and
- Require any employee of the Council, without prior notice, to produce cash, stores or any other property for which they are responsible.

The rights and responsibilities of Internal Audit are set out in Financial Procedure Rules (an extract is included at Appendix 2)

3.2 Responsibilities of the Head of Internal Audit

(The Head of Internal Audit has the formal title in the Council's structure of Head of Risk)

The Head of Internal Audit-

- Reports functionally to the Corporate Governance & Audit Committee which operates as the Audit Committee of the Council, and issues reports under his own name.
- Reports managerially to the Chief Executive, Service Director for Finance and Service Director, Legal Governance & Commissioning (Monitoring Officer) and for supervisory purposes to the Service Director, Legal Governance & Commissioning.
- Has the right to communicate directly with any Strategic or Service Director, or any other Council officer. The Head of Internal Audit may also communicate with any Cabinet Member or Councillor, or other person.
- Has the right to communicate confidentially with the Chair of the Corporate Governance & Audit Committee on any matters.
- Must advise the Corporate Governance & Audit Committee on any matter where any significant risk or threat to the organisation, identified through audit assurance work, has not been adequately addressed by management.

- Is responsible for the delivery of the internal audit function and achievement of the standards described within this document.

The Head of Internal Audit has responsibility for ensuring compliance with statutory requirements, in particular of the Data Protection and Freedom of Information Acts, and Council Policy concerning records management in operation of the internal audit activity. All audit work will be done in accordance with the principles of this legislation, unless certain exemptions apply to individual circumstances, so that, for example, personal data will be kept securely and disposed of correctly when it is no longer required for audit purposes. Information collected by way of audit work will be stored on paper and or electronically. Permanent file data, such as system notes will be kept until it is no longer valid. Reports, correspondence working papers and supporting evidence will be kept up to 6 years, but normally until after the next audit of the activity is completed, (or longer where an Audit Manager considers that this is necessary to facilitate service provision).

The Head of Internal Audit will ensure that audit work is shared with Strategic Directors, Service Directors and other senior managers and their appointees, and commissioning officers for investigations and reviews. Additionally, summaries will be provided to the Corporate Governance & Audit Committee, individual Members or others (e.g. whistle-blowers) who refer matters to Internal Audit, the external auditor and to other authorities and agencies to facilitate joint and partnership working as appropriate. Audit work will (except when otherwise agreed) be treated as confidential, but in certain circumstances may be wholly or partially subject to disclosure under the Freedom of Information Act.

Operationally, Internal Audit reports to the Chief Executive, statutory Chief Financial Officer and Monitoring Officer.

Internal audit work at Kirklees Neighbourhood Housing Ltd (KNH), a wholly owned and controlled (teckal) subsidiary of the Council, is carried out in the same way as a Council service, and is under the direction of the Council Corporate Governance & Audit Committee, with management input by officers of the company, as with a Council service, and some involvement by the Board of KNH, as necessary to enable them to discharge their responsibilities as Directors.

3.3 **Responsibilities of Internal Audit**

The responsibilities and objectives of Internal Audit are as follows:

- To provide soundly based assurances to management on the adequacy and effectiveness of their internal control, risk and governance arrangements, including ethics, information management and technology.
- To review, appraise and report on the extent to which the assets and interests of the Authority are accounted for and safeguarded from loss.

- To review, appraise and report on the suitability and reliability of financial and other management data and information.
- To assess the adequacy and effectiveness of the Authority's procurement, contract and partnership arrangements.
- To support schools in achieving high standards of control and governance.
- To assess the corporate risk management processes.
- To evaluate the risk of fraud and how it is managed and controlled. To provide corporate fraud and irregularity prevention, detection and investigation services in accordance with the Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy.
- To reach conclusions about the effectiveness of the Council's control environment, and to recommend improvements to management.
- To contribute to assurances in relation to the robustness and reliability of internal controls and governance to support the Annual Governance Statement (AGS).
- To support the achievement of efficiency, value for money and effective change management.
- To provide advisory and consultancy services intended to add value and improve value for money, governance, risk management and control processes.
- To provide advice in respect of the development of new or significant changes to existing programmes and processes including the design of appropriate controls. This is usually through membership of groups, boards or working parties as well as direct contact with officers within Services.
- To support effective procurement.
- To support activities of the Corporate Governance & Audit Committee to discharge its responsibilities.
- To support the Service Director of Finance as the Council's Chief Financial (s151) Officer and all senior management in meeting their corporate responsibilities.
- To monitor the implementation of agreed recommendations
- To plan, manage and operate the internal audit function in an efficient and effective manner.

3.4 Responsibilities and expectations of Internal Auditors

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined, working with honesty, diligence and responsibility. They must at all times observe the law and respect and contribute to the legitimate and ethical objectives of the Council.

Objectivity:

Internal Auditors must make a balanced assessment of all the relevant circumstances and not be, or appear to be, unduly influenced
This means

- Not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment
- Declaring any real or perceived interests on an annual basis, or at any time that they recognise any impairment to the objectivity
- Not accepting anything that may impair or be presumed to impair their professional judgement such as gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties
- Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review
- Not using information obtained during the course of duties for personal gain and
- Complying with the Bribery Act 2010.

Confidentiality:

Internal Auditors must

- Act prudently when using information acquired in the course of their duties and protecting that information and
- Not use information (derived or obtained through their official role) for any personal gain.

All records, documentation and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities. The Head of Internal Audit and all internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Integrity:

In the conduct of audit work, Internal Audit staff will:

- Comply with relevant professional standards of conduct and perform their work with honesty, diligence and responsibility.

Competency:

Internal Auditors are expected to be competent in their role by:

- Possessing the knowledge, skills and technical proficiency relevant to the performance of their duties
- Being skilled in dealing with people and communicating audit, risk management and related issues effectively
- Maintaining their technical competence through a programme of continuous professional development
- Exercising due professional care in performing their duties; and
- Complying with all requirements of the PSIAS.

Awareness:

- Being alert to the issue of fraud and corruption.

Internal Audit staff must declare any conflict of interest, or potential conflicts of interest, actual or perceived, to their Manager.

3.5 Statement of pre-existing areas of conflict in current audit activity

The Head of Internal Audit – as “Head of Risk” has direct operational responsibility for the Insurance, Risk Management and Corporate Customer Standards (complaints) functions and provides input into certain procurement functions. When audits are required of these areas, the Audit Manager reports direct to the Service Director Legal, Governance & Commissioning. This arrangement helps maintain independence and avoid any conflicts of interest.

On a Consultancy basis, but as a matter of routine, Internal Audit staff provide advice about the methods of financial evaluation of contracts and contractors and carry out on a task specific basis financial evaluation of prospective suppliers to the Council.

Except for these activities, the Internal Audit function has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in processing functions or business activities.

Otherwise, Internal Auditors are not involved in undertaking non audit activities and an Auditor will not be involved in the audit of any system or process for which they had previous operational responsibility (or advised in a consultancy capacity) for a period of two years.

Audit responsibilities are periodically rotated to avoid over-familiarity and complacency and also to provide for service continuity and resilience.

4. PERFORMANCE MANAGEMENT AND QUALITY CONTROL

4.1 Performance Management

The Corporate Governance & Audit Committee will establish performance measures for the Council, in respect of the control environment, and for the Internal Audit function and consider performance against those measures in reviewing the activity of Internal Audit.

4.2 Quality Control

The PSIAS requires the operation of quality assessment and review mechanisms, which must be assessed internally at least annually, and by an external assessor at least every 5 years.

The Head of internal Audit is responsible for advising the Committee on the appropriateness of measures and targets, and on collecting this information.

The Head of Internal Audit will establish internal quality control and review practices consistent with the requirements of the PSIAS, and report on the

outcome of this review work to the Corporate Governance & Audit Committee as a part of the Annual Report.

Quality control will include direction and supervision of work performed, the retention of appropriate reliable and relevant evidence to justify findings and conclusions and recommendations, and the internal review and assessment of work, including its preparation in accordance with detailed standards, and compliance with the requirements of PSIAS and CIPFA.

The Head of Internal Audit is responsible for arranging for the external assessment, providing the necessary information, and acting on any outcomes from the assessment. This will be done under the oversight of the Chair of the Corporate Governance & Audit Committee.

The external auditor and other external review agencies may evaluate the work of Internal Audit as part of their assessment of Council activity.

5. REPORTING

The Head of Audit and Risk will report to the Corporate Governance & Audit Committee

- Quarterly on each piece of work completed in the period, the opinion arising from that work and performance of internal audit (achievement of the annual audit plan (as revised when required), client satisfaction and quality assessment).
- Annually on the overall achievement and assessment of the Council's internal audit work programme, including an opinion on the control system, risk management and governance arrangements, and performance information, such as issuing reports on time, completing work within time allocated.
- Annually on the overall risk environment and the overall planned work on assurance in the forthcoming year, plus any investigative and consultancy tasks. This will include an assessment on the availability of resources, and any impact this may have on the ability to assess the control environment.
- As necessary on any matter impacting on the overall integrity of the Council's control environment, typically indicated by a "no assurance" audit opinion or on any operational matter that seriously impacts on the delivery of the audit plan, or resourcing of the internal audit function.

Internal Audit reports to all levels of management, with reporting of detailed operational work usually being to Service-Directors. The Chief Executive and Strategic Directors receive the full Council wide summary of activity.

6. INTERNAL AUDIT DELIVERY.

- 6.1 The Head of Internal Audit is responsible for the effective use of resources to deliver the Audit Plan.

- 6.2 Delivery is by direct employees of the Council, including trainees and secondees and where necessary temporary and casual employees. The use of specialist consultancy and contractors will be considered, if necessary, to deliver specific elements of the workload.
- 6.3 At least annually, the Head of Internal Audit will submit to the Corporate Governance and Audit Committee a risk based Internal Audit Plan for review and approval. The plan will consist of a schedule of planned assurance and consultancy work (including some contingency) which will establish resource requirements for the next financial year. This will be balanced between resource requirement and capacity. The standard requires the Head of Internal Audit to advise the Corporate Governance & Audit Committee if the amount of resources available compromises the ability to offer appropriate levels of assurance.
- 6.4 The internal audit plan is based on a risk-based assessment. The current standard -for 2020/21- is to potentially cover all areas of activity from the most significant to the most minor, although prioritisation is to ensuring that assurance coverage concentrates on those areas of highest risk in terms of potential exposure or likelihood of failure, covering both financial and other business controls (where assurance work utilise the responsibilities and processes for control effected by other teams such as Health & Safety).
- 6.5 Necessary material variations from the approved Internal Audit Plan are reported to and approved by the Corporate Governance & Audit Committee.

7. PARTNERSHIP, OBTAINING & PROVIDING ASSURANCE TO OTHERS

- 7.1 In respect of operations through partnership and semi-independent organisations:
- (i) Usually, the Council will require its internal auditors to have access to property, records, documents and correspondence, in respect of any activity operated or controlled by the organisation working for the Council, and for its auditors to be provided with explanations by officers of the organisation. Contracts and agreement documents will set out these rights where it is appropriate.
 - (ii) The Council (through agreement by the Head of Internal Audit) may agree that alternative review arrangements operated by or on behalf of the organisation, or independently, will provide sufficient evidence to enable the Council to secure assurance conclusions about the aspects of the effectiveness of the Council's control environment to which the partnership relates, although the Council will retain an ultimate right to review any activity dependent on the Council's funding. In this context the Head of Internal Audit will seek to develop relationships, formalised where practical, with other internal auditors and other review agencies to

facilitate this. This may include obtaining all or some elements of assurance from the internal auditors employed by the organisation, and or participating with other internal auditors (e.g. employed by local authorities in the sub region) to evaluate the procedures operated by shared partners (such as a regional wide public body) and using such assurance instead of obtaining direct assurance.

- (iii) The Council will, when requested and appropriate, provide assurance (based on work performed) to other partner organisations.

- 7.2 The Council's external auditor has full and free access to any records and work performed by Internal Audit. Action will be taken to coordinate work to avoid any duplication, and to ensure effective mutual working.
- 7.3 The Council provides Internal Audit services to the wholly owned Kirklees Neighbourhood Housing Ltd, for which the council's Corporate Governance & Audit Committee acts as Audit Committee.
- 7.4 The Council provides Internal Audit services to
 - Kirklees Active Leisure, which is a charitable trust under a service level agreement. Although the Council is the main partner of KAL, audit accountability and reporting is to Kirklees Active Leisure only.
 - The West Yorkshire Fire & Rescue Authority, which is a separate public body. This organisation makes significant use of the Council's financial systems. Audit accountability and reporting is to West Yorkshire Fire & Rescue Service only.

Appendix 1

CONTROL ENVIRONMENT - AUDIT WORK

The Control Environment comprises the Council's policies, procedures and operations in place to:

- i) Establish, and monitor the achievement of the organisation's objectives
- ii) Identify, assess and manage the risks to achieving organisational objectives
- iii) Facilitate policy and decision making
- iv) Ensure the economical, effective and efficient use of resources
- v) Ensure compliance with established policies (including behavioural and ethical expectation), procedures, laws and regulations
- vi) Safeguard assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and
- v) Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes. This encompasses elements of corporate governance and risk management.

Control Environment audit work utilises a risk based, systematic approach for all control environment work to:

- i) Identify and record the objectives, controls and risks of the system or process
- ii) Establish the congruence of operational objectives with higher-level corporate objectives
- iii) Evaluate and review the application of risk management processes and documentation
- iv) Evaluate the controls in principle to decide whether, or not, they are appropriate and can be reasonably relied upon to achieve their purpose
- v) Identify any instances of over-control
- vi) Determine and undertake appropriate tests of the effectiveness of controls, i.e. through compliance or substantive testing
- vii) Arrive at conclusions and recommendations and
- viii) Provide a written opinion on the effectiveness of the control environment.

Appendix 2

EXTRACT OF FINANCIAL PROCEDURE RULES

5. INTERNAL AUDIT

Responsibility & Authority

- 5.1 *The Chief Executive (in consultation with the Chief Finance Officer and Monitoring Officer) must arrange and direct a continuous internal audit, which is an independent review of the accounting, financial and other operations of the Council.*
- 5.2 *The Head of Risk will report directly to the Chief Executive, the Chair of the Corporate Governance & Audit Committee or the External Auditor in any circumstance where the functions and responsibilities of the chief finance officer are being reviewed. (other than routine reporting of work carried out)*
- 5.3 *The Head of Risk has authority to:-*
- (a) *Enter at all times any Council premises or land or location from which Council services are provided;*
 - (b) *have access to all property, records, documents and correspondence relating to all activities of the Council;*
 - (c) *require and receive explanations concerning any matter; and*
 - (d) *Require any employee of the Council, without prior notice, to produce cash, stores or any other property for which they are responsible.*

The chief finance officer has the same authority for any accounting or associated purpose.

Planning & Reporting

5.4 *The Head of Risk must plan and report (in accordance with the approved Audit Strategy and Charter , Public Sector Internal Audit Standards and any instructions from the Councils Corporate Governance & Audit Committee) upon:-*

- a) *The risks inherent in and associated with each system;*
- b) *The soundness, adequacy and application of the financial and other management controls and systems within each Service;*
- c) *The extent of compliance with, and the financial effects of, established policies, plans and procedures;*
- d) *The extent to which the organisation's Assets and interests are accounted for and safeguarded from losses of all kinds arising from fraud, other offences, waste, extravagance and inefficient administration, poor value for money and other cause;*
- e) *The suitability, accuracy and reliability of financial and other*

management data within the organisation; and

f) Value for money aspects of service provision.

5.5 In respect of any audit report or communication issued, the Director must reply within 4 weeks indicating the action proposed or taken, by whom and including target dates. Where a draft report is issued for initial comments a reply must be made within 2 weeks of issue.

5.6 The Head of Risk will provide a written summary of the activities of the Internal Audit function to the Cabinet and Corporate Governance & Audit Committee at least four times per year and an Annual Report produced for consideration by Management Board, Cabinet and Corporate Governance & Audit Committee, including an audit opinion on the adequacy and effectiveness of the Council's risk management systems and internal control environment.

The Head of Risk will review the system of internal audit on an annual basis and report the outcome to the Corporate Governance & Audit Committee.

Investigations and Suspected Fraud, Corruption or Bribery.

5.7 The Chief Executive and Directors must ensure that all Members and employees are:-

- a) Aware of the Council's Anti-Fraud, Anti-Corruption and Anti Bribery Strategy;*
- b) Aware of the Whistleblowing Strategy; and*
- c) Operating in a way that maximises internal check against inappropriate behaviour.*

The Head of Risk is responsible for the development and maintenance of the Anti-Fraud, Anti-Corruption and Anti Bribery Strategy and Whistleblowing Strategy and for directing the Council's efforts in fraud investigation.

5.8 It is the duty of any officer who suspects or becomes aware of any matter which may involve loss or irregularity concerning cash, stores or other property of the Council or any suspected irregularity in the operations or exercise of the functions of the Council to immediately advise the Director. The Director concerned must immediately notify the Head of Risk who may take action by way of investigation and report.

5.9 Where, following investigation, the Head of Risk considers that there are reasonable grounds for suspecting that a loss has occurred as a result of misappropriation, irregular expenditure or fraud, consultations will be held with the Director on the relevant courses of action, including the possibility of police involvement and the invoking of any internal disciplinary procedure in accordance with the relevant conditions of service. (Claimant fraud in respect of Housing Benefit and Council Tax Reduction and Discounts (where the claimant is not an employee or Member of the Council) is investigated by the Revenue & Benefits Service).

Appendix 3

ROLE OF THE “AUDIT COMMITTEE”

Extract from Terms of Reference of Corporate Governance & Audit Committee (May 2018) from the Council Constitution

6. To consider the council’s arrangements relating to internal audit requirements including:
 - (a) considering the Annual Internal Audit report, reviewing and making recommendations on issues contained therein
 - (b) monitoring the performance of internal audit
 - (c) agreeing and reviewing the nature and scope of the Annual Audit Plan
7. To review the adequacy of the council’s Corporate Governance arrangements (including matters such as internal control and risk management) and including to review and approve the annual statement of Corporate Governance.
8. To agree and update regularly the council’s Code of Corporate Governance, monitoring its operation and compliance with it, and using it as a benchmark against performance for the annual Statement of Corporate Governance.

Monitoring the performance of Internal Audit might include:-

- i) Reviewing the scope, effectiveness and resourcing of the Internal Audit function;(including ensuring its budget is enough to achieve the work programme that the Committee considers to be necessary)
- ii) Assessing the balance between routine/unplanned/investigative work and systems /process/probity/unit/investigations/vfm studies/best value review/other work.
- iii) Appraising the accuracy and coverage of the work carried out.
- iv) Reviewing issues arising out of Internal Audit work.
- v) Reviewing management commitment to implementing audit recommendations.
- vi) Performance Management of Internal Audit work.

The Corporate Governance & Audit Committee can in support of its role:

- i) Call for Internal Audit reports to be submitted to it for consideration.
- ii) Commission specific pieces of Internal Audit work; and
- iii) Summon officers, members or other persons to explain their actions, or inactions, in relation to Internal Audit work.

Appendix 4

AUDIT PLANNING, RESOURCING AND REPORTING (Detail) 1

Corporate Audit Planning

- 1.1 The Head of Internal Audit is responsible for appropriate planning and deployment of Internal Audit resources by production of:
- i) A Strategic Statement of Areas of Auditable Activities and risk.
 - ii) A detailed Annual Audit Plan setting out the specific assignments planned for the year, reflecting risk and priorities and matched to the available resources.
- 1.2 The Annual Audit Plan will identify the work which is necessary to fulfil the following obligations: Assurance on effectiveness of internal controls to deliver efficient operations, safeguard the Council's assets and ensure compliance with relevant legislation, regulations, policies and procedures
Including:
- i) Assurance on key internal controls
 - ii) Assurance on financial processes and systems
 - iii) General assurance on other business systems and processes.
 - iv) Opinion on Risk Management
 - v) Opinion on Governance Arrangements
- 1.3 The level of resources allocated, and work planned need to be balanced, to provide the levels of assurance, and other activities, that are expected as outcomes.

2 Risk Assessment

- 2.1 Both of the Strategic and Annual Plans are prepared based on an assessment of risk. Although this can be made ostensibly scientific, at its heart is professional judgement about the-
- i) Importance of a risk area
 - ii) Existing level of internal control and risk management.
 - iii) Materiality
 - iv) Significance in terms of organisational impact, sensitivity and accountability
 - v) Previous coverage and experience and knowledge gained by Internal Audit; and
 - vi) Coverage by other review agencies.
- 2.2 The key financial systems will usually be subject to triennial review. The frequency of review of other business, governance and major and medium risk financial systems and processes will typically be between 3 and 5 years.-Some operational units and minor financial and business processes will be subject to audit work less frequently than every 5 years.
- 2.3 Any consultancy work will be separate from the control environment work and be based against specific objectives agreed with the Director responsible before the work commences.

3 Other Audit Work

- 3.1 Internal Audit will have the opportunity to determine if they wish to investigate any suspected irregularity or inappropriate behaviour by officers of the Council, its partners, suppliers or Service users which involves the potential misuse or loss of the Council's resources, including cash, stores, or other amounts. The Anti-Fraud,

Anti- Corruption & Anti-Bribery Strategy and the Financial Procedure Rules set down a procedure for investigation, reporting and decision making. The exceptions to this are the investigation of customer claims for Council Tax Reduction, Housing Benefit, Blue Badges, Right to Buy and other means tested care provision (which are at April 2020 the responsibility of the Investigation Team, Revenue & Benefits Service, although arrangements for the management of this team may change during 2020/21) and investigations into the misuse of Council paid time (e.g. inappropriate absence from work) which, along with non-resource based disciplinary matters, are the responsibility of Service management.

- 3.2 In order to test compliance by management in implementing agreed recommendations Internal Audit will follow up all cases where planned audit work identified that a system or process was considered to offer only limited assurance or no assurance (see tables 6.3 and 6.4) and in a sample of other cases. In the case of investigations, or consultancy, any outcome which results in agreed recommendations for improvements to process will also be subject to further review

4 Audit Resources

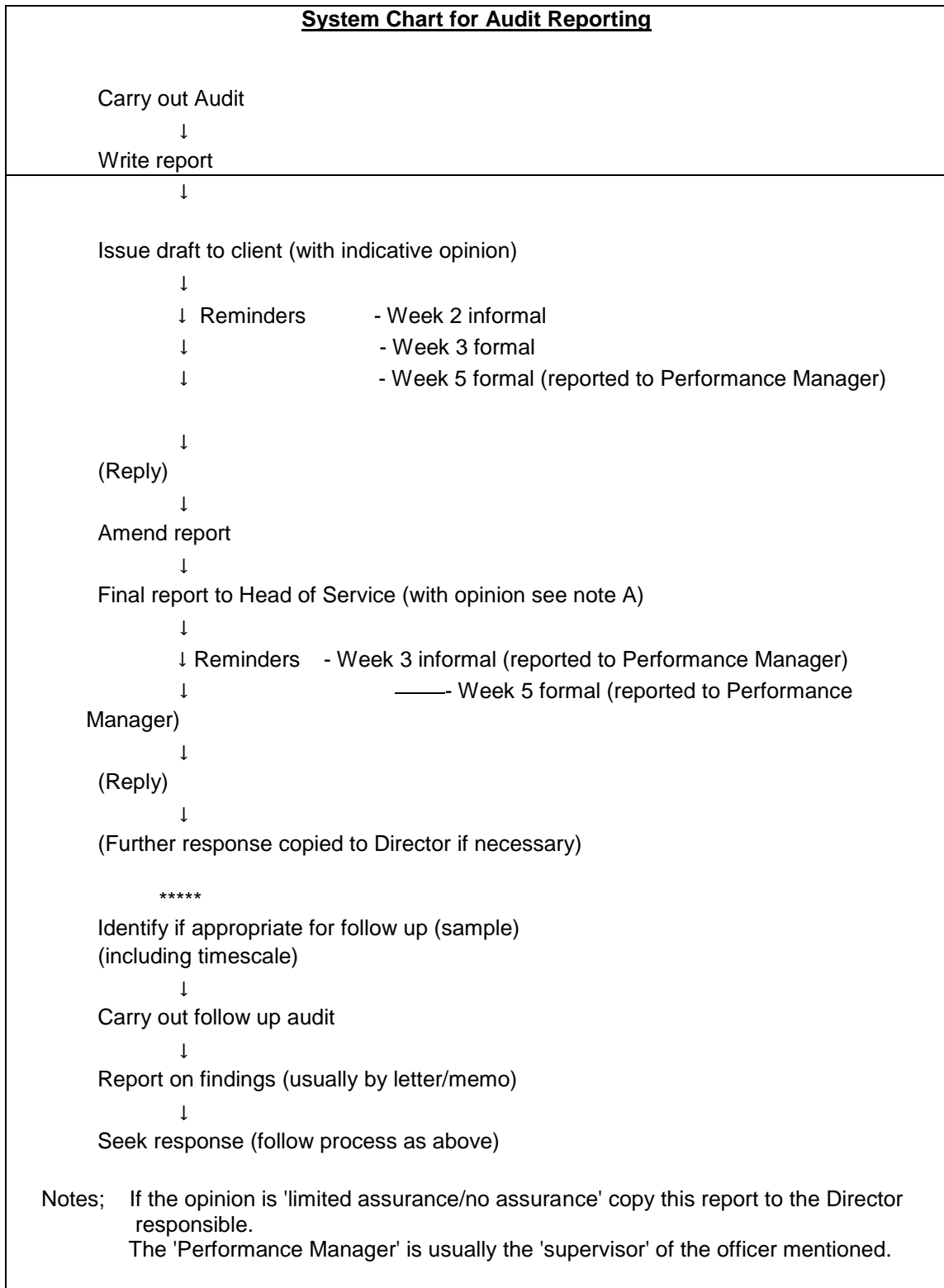
- 4.1 The Strategic Audit Plan includes a schedule of risks areas with an assessment of their nature and potential severity in terms of probability and impact.
- 4.2 At the start of each year, an annual plan will be prepared that looks at the degree of risk, based on the extent of assessed severity, and the date and findings of the previous work.
- 4.3 The Annual Plan needs to be interactively monitored against emerging risks, with the Plan being amended to reflect need, to ensure that resources are deployed on a priority basis.
- 4.4 The Head of Internal Audit will have the authority to change the plan to achieve this objective, and report back as a part of quarterly reporting of any significant changes made.
- 4.5 The Head of Internal Audit must monitor to ensure that there is sufficient resource to enable adequate coverage, and report at least annually on this.
- 4.6 The Annual Plan (IA control version) will include an allocation of days for each assignment (based on an expectation of an adequate arrangement)
- 4.7 In addition to the programmed audit work there needs to be time allowed:
- i) As a contingency for dealing with unexpected issues/delays in planned work.
 - ii) To allow for un-programmed work and investigations.

5 Audit Assignments

- 5.1 Each specific Internal Audit assignment will identify its objectives and a time allocation and be either:
- i) Subject to a routine audit programme developed in relation to the activity; or
 - iii) Subject to a specific audit brief developed for the specific task and agreed with the client. (This can be either an infrequent piece of assurance work, or a unique piece of consultancy).
- 5.2 Prior to the commencement of routine audits, Internal Audit will usually inform the manager responsible for the Service area under review about the purpose, scope and expected timing of the work. However, for some types of audit, such as special investigations, advance warning of the audit visit may not be appropriate, and this is at the discretion of the Head of Internal Audit.
- 5.3 Internal audit work will look to assess and provide information on the:

- i) Soundness, adequacy and application of the financial and other management controls and systems within each Service
 - ii) Extent of compliance with, and the financial effects of, established policies, plans and procedures
 - iii) Extent to which the organisation's assets and interests are accounted for and safeguarded from losses of all kinds arising from fraud, other offences, waste, extravagance, and inefficient administration, poor value for money and other cause
 - iv) Suitability, accuracy and reliability of financial and other management data within the organisation; and (where applicable)
 - v) Value for money aspects of service provision
- 5.4 During the conduct of reviews, Internal Audit staff will consult, orally and/or in writing, with relevant officers to:
- i) Ensure information gathered is accurate and properly interpreted.
 - ii) Allow management to put their case to ensure that a balanced assessment is made.
 - iii) Keep management informed on the progress of the audit.
 - iv) Ensure recommendations are cost effective and practicable; and
 - v) Ensure that all recommendations agreed are followed up and that action has been taken leading to implementation.
- 5.5 Whatever the source of the evidence, Internal Audit must be satisfied as to its nature, reliability, completeness and relevance before drawing conclusions.
- 5.6 Internal Audit "working papers" (paper and electronic) will contain the principal evidence to support reports and they also provide the basis for review of work by documenting: -
- i) Planning
 - ii) Examination and evaluation of the adequacy and effectiveness of internal controls
 - iii) The audit procedures employed, the information obtained, and the conclusions reached
 - iv) The management reviews
 - v) The report; and (as applicable, if any)
 - vi) Follow up.
- 5.7. The Auditor and Audit Manager will use their best endeavours to deliver the completed assignment within the time allocated and the timescale determined. This may not be possible due to inability to access key staff, other programming difficulties, the state of the records and information presented.

6 Audit Reporting



6.1 Internal Audit Reports

In respect of each assignment Internal Audit will produce a written report. This will usually set out summary information about the objectives and the work performed, providing detail of any adverse findings on an "exception only basis" setting out the

extent to which operations fail to conform to the established standard , and other important matters identified, stating the conclusions reached and recommendations, with an Action Plan to address these recommendations.

Where a report is issued, generally this will initially be in the form of a draft report, issued to the auditee and line manager, for comment on factual accuracy and the potential practicality of draft recommendations. Services can indicate at this stage if they agree with the recommendations and how they intend to action them. This will be usually issued by email

In respect of investigative work, the draft report (when produced) will be discussed with the responsible Director (or nominee). For consultancy work, the draft will be discussed with the commissioning manager.

On occasions where there are no adverse findings or recommendations, a report may progress to final stage without a draft being necessary.

The final Internal Audit report will be issued to the Service Director (or where agreed, the Strategic Director). An accompanying letter or email will indicate the Internal Audit opinion on the state of the system / process at the time the audit was undertaken, (and if the report is to feature in detail in subsequent reporting, a summary text).

6.2 Management Response

A formal written reply is required. This should indicate specifically:

- i) That the recommendations are accepted, and actions are to be taken, including timescale and the names of individual officers who are specifically responsible for their implementation.
- ii) That specific recommendations are not accepted. The reason should be provided, and any alternative actions should be listed.

A reply is not required where there are no recommendations, or when a detailed response was made at draft stage.

At this stage the matter will be considered to be finalised, except where the actions / inactions proposed under (ii) appear unjustified or unclear whereupon if the Head of Internal Audit believes the rejection or alternatives are unreasonable, further discussions will take place, and if necessary the matter will be reported to the relevant Strategic Director, or through the Internal Audit reporting process to the Corporate Governance & Audit Committee.

Management should respond to Internal Audit reports as quickly as possible, and within the following maximum timescales established in FPRs.

Draft Reports: Within 2 weeks of issue

Final Reports: Within 4 weeks of issue

Failure to adhere to the above timescales will be reported to Corporate Governance & Audit Committee on a quarterly basis.

6.3 Audit Opinion

The report will express an opinion on the level of assurance that is offered by the system/ process at the time the audit work was undertaken.

In respect of any audit work where the specific objective is to assess value for money, the opinion will reflect the assurance of the extent that current arrangements do or are likely to deliver value for money. Where value for money is one of a number of objectives, a separate opinion will be stated (on the grounds that a system may be highly effective in respect of the controls that it provides, but does not do so in a way that is efficient) ;

Assurance level	Control Adequacy	Control Application
Substantial Assurance	A robust framework of all key controls exist that is likely to ensure that objective will be achieved	Controls are applied continuously or with only minor lapses
Adequate Assurance	A sufficient framework of all key controls exist that is likely to result in objectives being achieved, but the overall control framework could be stronger	Controls are applied but with some lapses
Limited Assurance	Risk exists of objectives not being achieved due to the absence of a number of key controls in the system	Significant breakdown in the application of a number of key and/or other controls
No Assurance	Significant risk exists of objectives not being achieved due to the absence of key controls in the system	Serious breakdown in the application of key controls

6.4 The assurance is calculated as follows.

Assurance Level	Fundamental	Significant	Merits Attention
Substantial Assurance	There are no fundamental recommendations	There is no more than 1 significant recommendation	There are no more than 5 merits attention recommendations
Adequate Assurance	There are no fundamental recommendations	There are 2 to 4 significant recommendations	There are 6 to 10 merits attention recommendations
Limited Assurance	There are 1 or more fundamental recommendations	There are more than 4 significant recommendations	There are more than 10 merits attention recommendations
No Assurance	The number of fundamental recommendations made reflects an unacceptable control environment	Not applicable	Not applicable

Although the above is a general assessment model, there will be an element of discretion, as a single fundamental failing can, in certain circumstances, mean that an entire operation offers no assurance.

6.5 Prioritisation of Recommendations

Audit recommendations are allocated a priority rating to signify the risk, or level of internal control weaknesses, associated with the issue identified. The ratings used are: -

Priority Rating	Guidance
Fundamental	A recommendation, often requiring immediate action that is key to maintaining an appropriate control environment and thereby avoiding exposure to a significant risk to the achievement of the objectives of the system, process or location under review.
Significant	A recommendation requiring action that is necessary to improve the control environment and thereby avoid exposure to a risk to the achievement of the objectives of the system, process or location under review.
Merits Attention	A recommendation where action is advised to enhance control or improve operational efficiency.

6.6 Taking action on Audit Reports

The responsibility for implementation of audit recommendations - and the right to reject Internal Audit advice - lies with the Service Director.

Where audit work identifies that a system or process is unsatisfactory (or the management actions proposed to a system which is generally satisfactory are considered inappropriate) Internal Audit will advise the relevant Director.

6.7 Consolidating Information to form Overall Opinions and Advice

In respect of key financial systems, the overall opinion on the system will often be informed by a number of discrete pieces of work.

In addition, Internal Audit will also analyse various discrete audit assignments to ascertain if information or advice of benefit to a wider audience of managers can be obtained and distributed.

6.8 Corporate Management Reporting

Internal Audit will produce

- i) A Quarterly Report on Internal Audit activity
- ii) An Annual Report on Internal Audit activity expressing an opinion on the integrity and appropriateness of all significant financial systems and business control systems.

The Quarterly Report will contain details of work which has been finalised and agreed in the period, including

- i) Specific details of all investigations, special studies and reviews and non-standard work.
- ii) Summary information on systems and processes reviewed, and key reasons or findings when the system is considered to be providing only 'limited assurance' or 'no assurance'.
- iii) Information about all follow up work; and
- iv) Information about any senior managers who have failed to comply with their obligations.

The report will indicate if

- i) At the time of the audit, the system or process reviewed provided "substantial", "adequate", "limited" or "no" assurance
- ii) Management have not agreed the recommendations; and
- iii) In the case of follow up work if agreed recommendations have not been implemented.

The report will be presented to the Chief Executive and Strategic Directors and formally to the Corporate Governance & Audit Committee.

The Annual Report will use information from the Quarterly Reports, and analyse this against systems and across Service areas to provide an opinion in respect of those systems and arrangements that have been subject to review during the year of.

- i) All major financial and business systems.
- ii) Other business control systems.
- iii) The overall quality of the operation of control systems in individual Service areas; and
- iv) An overall assessment of risk, and governance.

The report will be presented to the Chief Executive and Strategic Directors and formally to the Corporate Governance & Audit Committee.

7. Management responsibilities

- 7.1 It is the responsibility of operational managers, Heads of Service, Service Directors, Strategic Directors and Cabinet Members to implement and operate control systems which accord with statute, Council policy and organisation rules (e.g. Financial Procedure Rules).
- 7.2 They must ensure that appropriate records are kept and maintained as necessary to comply, and demonstrate compliance with their requirements, and ensure that staff employed are suitably skilled and trained.
- 7.3 Managers must ensure that appropriate access is granted for Internal Audit - to employees, premises, and records.
- 7.5 Accountability for the responses to the advice and recommendations of Internal Audit lies with management, who must either accept and implement the advice, offer an alternative action that addresses the deficiency identified (which is acceptable to Internal Audit), or formally reject it.
- 7.5 It is the responsibility of managers to establish systems and procedures to deter, prevent and detect fraud, corruption and bribery and suspected fraud, corruption and bribery.

Appendix 5

The Public Sector Internal Audit Standards (PSIAS)

The Public Sector Internal Audit Standards took effect from 1 April 2013 and apply to almost all public organisations in the UK. They are based on a development of international standards for internal auditing, largely developed by the Institute of Internal Auditors. The document produced is mandatory guidance which states the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance.

These standards in local authorities are supplemented by additional guidance from CIPFA that has regulatory authority for local government in the UK. This includes substantial checklists of process and procedure.

The Public Sector Internal Audit Standards use a number of specific terms. These include terms which in the Council are considered to be as shown below in preparing this charter.

Term in the Public Sector Internal Audit Standards	Interpretation in this Charter Document
Chief Audit Executive	Head of Audit & Risk
Board	Corporate Governance & Audit Committee
Senior Management	Chief Executive and Strategic Directors

The Public Sector Internal Audit Standards document makes a number of statements as regards employment arrangements of the Chief Audit Executive. Whilst the UK standard and CIPFA identifies that some of the stated practices are not relevant to local government, these rules do look to transfer some employment related matters away from purely the executive arm of the organisation, by involving requirement of the Board.

Appendix 6

Statement of the responsibilities of management

1. It is the responsibility of management to establish sound and adequate operational systems and processes designed to achieve the organisation's objectives efficiently and effectively. It is their responsibility to organise operations efficiently in a way that achieves required outcomes, statutory compliance and adequate levels of internal control, including as appropriate matters such as the correct management of information. Senior managers must ensure that operational managers understand their role, operate systems as designed and intended, train staff appropriately in the required systems and procedures, and keep and retain adequate records. It is the responsibility of managers to establish systems and procedures to deter, prevent and detect fraud, corruption and bribery
 2. In dealing with internal audit managers should;
 - Arrange appointments for planned audit work promptly.
 - Respond diligently and promptly to any unplanned visit or request for information.
 - Have appropriate records and accesses available as necessary to assist the audit work.
 - Have the appropriate staff available to describe any system or arrangement, and answer questions or resolve queries as the audit work progresses.
 - Be available to discuss the conclusions of audit work and any recommendations.
 - Reply promptly to any draft audit report.
 - Reply promptly to any final audit report.
 - Complete any necessary action plan indicating agreement or otherwise.
 - Implement agreed actions.
 3. In respect of assurance, consulting or other activity (such as investigations) it is the role of Internal Audit to assess and report independently on systems and process and the efficiency and effectiveness of an activity. Whilst management will be consulted, and their comments considered, and can seek to offer advice and opinion, the auditor is responsible for production of the report based on the evidence that they have available. Managers are not required to agree with the conclusions reached.
 4. Managers are not required to implement audit recommendations. Where they believe that a recommendation is inappropriate, they should say why. Where they would prefer an alternative action, they should propose this.
 5. Although internal auditors will always attempt to be helpful, their role is to provide assurance and specific consulting, and it is not their prime role to offer advisory services, although they can often be a useful final arbiter if there is a lack of clarity about appropriateness of a procedure, or interpretation of a rule or requirement.
 6. The Chief Executive, Chief Financial Officer (s 151 officer) and Monitoring Officer are ultimately responsible for the implementation of matters as required by their statutory responsibilities.
-

Appendix 2

KEY CORPORATE SYSTEMS 2020/21

Financial Systems & Controls

Payroll (SAP)
Debtors (SAP)
Procurement / Creditors (SAP)
Council Tax
Business Rates
Council Tax Reduction Scheme (residual Benefits)
Housing Rents
Treasury Management
Payments for Social Care
School Payments
Internal Recharging

Key Organisation & Business Controls

Code of Corporate Governance
Contract Procedure Rules
Financial Procedure Rules
Contract Management
HR Operations
Risk Management
IT Controls
Performance Management Systems
Partnership Governance
Emergency & Business Continuity Planning
Information Security
Health & Safety
Fraud, Bribery & Corruption Risk
Corporate Complaints
Whistleblowing

Appendix 3

ORIGINAL DRAFT INTERNAL AUDIT PLAN 2020/21 (116)

CORPORATE (4)

National Fraud Initiative 2020/21
Safeguarding
Climate Change Emergency
No Recourse to Public Funds follow-up

ADULTS, HOUSING & HEALTH

Adults Social Care Operation (11)

Safeguarding
Emergency Duty Team
Deprivation of Liberty Safeguards
Better Care Fund
Clients Benefit and Pensions Income
Community Partnership Grants
Risk Management #
Establishments x 4

Customers and Communities (1)

Grants/Support to Voluntary Organisations

HOUSING (HRA) AND KNH (9)

Leaseholder Service Charges
Plant & Equipment Hire
Procurement of Works (Sub-Contractors)
Rent System Control and Reconciliation
Tenancy Allocation
Debtors +
Creditors +
Payroll +
Rent Write Offs
[items marked + also supports assessment of financial processes of KNH Ltd]

CHILDREN AND FAMILIES

Child Protection and Family Support (6)

Adoption Allowances
Fostering Payments
Children's Homes x 2
Risk Management #
Associate Framework second follow-up

Learning and Early Support (39)

High Schools x 2
Special Schools x 2
Primary Schools x 30
Troubled Families Grant Claims
SEND
School Admissions
Risk Management #
Careers Partnership

CORPORATE STRATEGY, COMMISSIONING & PUBLIC HEALTH

Strategy and Innovation (7)

SAP Security #
IT Network Access Controls
Voice Network Contract
Communications Policy #
Digital Transformation #
IT Software Licensing follow up
Performance Management second follow-up #

Governance and Commissioning (5)

Modern Slavery
SAP Ordering and Category Management
Corporate Risk Management #
Code of Corporate Governance/Ethics #
Regulation of Investigatory Powers Act Compliance

Finance (4)

Council Tax
NNDR
Cash Income Reconciliation #
Bank Reconciliation

People Services (5)

Attendance Management
Mandatory Staff Training follow-up
SAP Creditors Key Controls follow-up
SAP Debtors Key Controls #
Direct Debit Income #

Public Health (3)

Adult Wellness Contract
Healthy Child Contract
Risk Management #

ECONOMY & INFRASTRUCTURE

Environment (13)

School Transport
Waste Management Contract #
Schools Facility Management Procurement
Grounds Maintenance Income
DRAM Centre with Cliffe House follow-up
Vehicle Maintenance
Cleaning Recruitment and Payroll
Highway Asset Management
Health & Safety
Street Lighting & Sign Maintenance & Energy
Watercourse & Flood Management
Garden Waste Collection
Risk Management #

Growth & Housing (3)

Housing Register
Temporary Accommodation
Risk Management #

Economy and Skills (6)

Capital Plan Delivery
Works Better Programme
Markets
Business Centres
Asbestos follow-up
Fire Safety follow-up

Notes

- The draft plan has been prepared in accordance with the Public Sector Internal Audit Standards
- Follow up audits relate to audits in 2019/20 which produced a *Limited Assurance* opinion
- Audits marked # relate to Significant Governance Issues in the 2019/20 AGS
- The audit planning process is risk based and attributes a score to each activity in the audit universe (using a 4x3 matrix). Audits are then undertaken on up to a 5-year cycle. Whilst most audits proposed above have a risk score of 9 or above, some lower risk audits have been scheduled to give a broader picture of the control environment across the organisation.
- Items marked + also supports assessment of financial processes of KNH Ltd

Appendix 3A
RECOMMENDED REVISED AUDIT PLAN
Draft Revised Internal Audit Plan 2020/21 (90 audits)

	Internal Control	Risk Management	Governance	Remove from Plan
<u>CORPORATE (4)</u>				
	National Fraud Initiative 2020/21	Safeguarding		Climate Change Emergency
	No Recourse to Public Funds follow-up			
<u>ADULTS, HOUSING & HEALTH</u>				
<u>Adults Social Care Operation (11)</u>	Deprivation of Liberty Safeguards	Safeguarding		Emergency Duty Team
	Better Care Fund	Risk Management#		Establishments x 4
	Clients Benefit and Pensions Income			
	Community Partnership Grants			
<u>Customers and Communities (1)</u>	Grants/Support to Voluntary Organisations			
<u>KNH (9)</u>	Plant & Equipment Hire			Leaseholder Service Charges
	Rent System Control and Reconciliation			Procurement of Works (Sub-Contractors)
	Debtors +			Tenancy Allocation
	Creditors +			
	Payroll +			
	Rent Write Offs			
<u>CHILDREN AND FAMILIES</u>				
<u>Child Protection and Family Support (7)</u>	Fostering Payments	Risk Management#		Adoption Allowances
	Emergency Duty Team			Children's Homes x 2
				Associate Framework second follow-up
<u>Learning and Early Support (40)</u>	High Schools x 2	SEND	School Exclusions	

	Special Schools x 2	Risk Management#		
	Primary Schools x 20			Primary Schools x 10
	Troubled Families Grant Claims			School Admissions
				Careers Partnership
<u>CORPORATE STRATEGY, COMMISSIONING & PUBLIC HEALTH</u>				
<u>Strategy and Innovation (8)</u>	SAP Security#	Digital Transformation #	Performance Management second follow-up#	Communications Policy#
	IT Network Access Controls			IT Software Licensing follow up
	Voice Network Contract			
	Cyber Security			
<u>Governance and Commissioning (5)</u>	SAP Ordering and Category Management	Corporate Risk Management#	Code of Corporate Governance/ Ethics#	Modern Slavery
			Regulation of Investigatory Powers Act Compliance	
<u>Finance (4)</u>	NNDR			Council Tax
	Cash Income Reconciliation#			
	Bank Reconciliation			
<u>People Services (7)</u>	Attendance Management	Mandatory Staff Training follow-up		
	SAP Creditors Key Controls follow-up			
	SAP Debtors Key Controls#			
	Direct Debit Income#			
	VAT			
	Employee Expenses			
<u>Public Health (3)</u>	Adult Wellness Contract	Risk Management#		
	Healthy Child Contract			

<u>ECONOMY & INFRASTRUCTURE</u>				
<u>Environment (13)</u>	School Transport	Vehicle Maintenance		Garden Waste Collection
	Waste Management Contract#	Street Lighting & Sign Maintenance & Energy		
	Schools Facility Management Procurement	Watercourse & Flood Management		
	Grounds Maintenance Income	Risk Management#		
	DRAM Centre with Cliffe House follow-up			
	Cleaning Recruitment and Payroll			
	Highway Asset Management			
	Health & Safety			
<u>Growth & Housing (5)</u>	Markets	Risk Management#	Taxi Licensing Appeals	Housing Register
				Temporary Accommodation
<u>Economy and Skills (6)</u>	Business Centres	Asbestos follow-up	Capital Plan Delivery	Works Better Programme
	Discretionary Grant Fund for Small Businesses	Fire Safety follow-up		
123	67	17	6	33

Items marked # are shown in the Annual Governance Statement
Those marked + also supports assessment of financial processes of KNH Ltd

Appendix 4

INTERNAL AUDIT PERFORMANCE TARGETS 2020/21

<u>Objectives</u>	<u>Performance Measures</u>
Achieve planned audit work as adjusted	90% of planned priority audits achieved*
Achieve each planned audit within budgeted time allowed	80% of planned work achieved within initial time budget
Achieve high level of work quality and customer satisfaction	90% good or better responses to customer questionnaires
Delivery of completed audit work	85% of draft reports issued within 10 days of completion of site work

(*) Based on a full year; achievement needs to be pro-rata to new normal operating period, adjusted for any impacts of changed working arrangements.