

## POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	16 <sup>th</sup> June 2021		
TITLE:	Internal Audit Annual Report and Opinion 2020-21		
TYPE OF REPORT:	Scrutiny		
PORTFOLIO(S):	Cllr Dickinson, Finance Portfolio Holder		
REPORT AUTHOR:	Kathy Woodward, Internal Audit Manager		
OPEN		WILL BE SUBJECT TO A FUTURE CABINET REPORT:	No

### **REPORT SUMMARY/COVER PAGE**

<b>PURPOSE OF REPORT/SUMMARY:</b> To provide the Audit Committee with an overview of the work undertaken by Internal Audit during 2020-21 and provide the Audit Manager's annual opinion on the system of internal control.
<b>KEY ISSUES:</b> Under the Accounts and Audit Regulations 2015, the Council ' <i>must conduct a review of the effectiveness of the system of internal control</i> '. The work of Internal Audit forms part of the assurance provided to Councillors and Management Team and supports the Annual Governance Statement.  Public Sector Internal Audit Standards (PSIAS), which are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015, state that the Audit Manager ' <i>must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement</i> '. This report fulfils that requirement.  The report includes consideration of the effectiveness of the internal audit team and the basis of the Internal Audit Manager's opinion.
<b>OPTIONS CONSIDERED:</b> Not applicable
<b>RECOMMENDATIONS:</b> To receive the annual audit opinion and note the work of Internal Audit for 2020-21.
<b>REASONS FOR RECOMMENDATIONS:</b> To comply with the requirements of the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS).

## **REPORT DETAIL**

### **1. Introduction**

Under the Accounts and Audit Regulations 2015, the Council '*must conduct a review of the effectiveness of the system of internal control*'. The work of Internal Audit forms part of the assurance provided to Councillors and Management Team and supports the Annual Governance Statement.

Public Sector Internal Audit Standards (PSIAS), which are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015, state that the Internal Audit Manager '*must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement*'. This report fulfils that requirement.

The Internal Audit Annual Report states the Internal Audit Manager's opinion on the system of internal control and the sources of assurance used to form this opinion.

- 1.1 To support the stated opinion, this report describes the work carried out by Internal Audit during 2020-21 and summarises the resulting findings. It also reflects on the performance against the strategic plan and the effectiveness of the Internal Audit team.

### **2. Internal Audit Manager's Opinion**

- 2.1 The Council is required to report in its annual statutory financial statements an assessment as to the adequacy of the internal control environment, risk management, and governance arrangements. This is referred to as the Annual Governance Statement.
- 2.2 Information for this purpose is drawn from many sources one of which is the work of Internal Audit in that financial year, and up to the date of the approval of the annual accounts. All audits have been carried out in conformance with the Public Sector Internal Audit Standards.
- 2.3 As part of the Annual Governance Statement evaluation, an assurance mapping exercise takes place which documents and establishes additional sources of assurance.
- 2.4 The annual audit opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control
- 2.5 Based on the work that Internal Audit has performed as described in the full year progress report for 2020-21, the Internal Audit Manager's opinion for 2020-21 is that, there is "adequate" assurance as to the adequacy and effectiveness of internal controls, the risk management and governance arrangements. Management has adopted plans for improvement in control, and within appropriate timescales that will be followed-up to ensure further improvement is delivered. Potential risks and opportunities for further improvement have been incorporated into Management Action Plans.
- 2.6 On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, the Internal Audit Manager's opinion can only provide a reasonable, not absolute, level of assurance as to the adequacy and effectiveness of these systems.

### 3. Effectiveness of the Internal Audit team

- 3.1 The Internal Audit team consists of a part time Shared Internal Audit Manager, 1.7 FTE Auditors and 1 full time Investigation Officer/Internal Auditor. The Internal Audit Manager is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA). The Internal Auditors have either achieved a Practitioner status of the IIA or hold equivalent qualifications. The Investigation Officer / Internal Auditor is PINS (Professionalism in Security) qualified and also an Accredited Counter Fraud Manager. The full time Auditor is also undergoing training and has received mentoring support from within the team.
- 3.2 This year is the fourth full year of the Shared Internal Audit Management arrangements with Fenland District Council.
- 3.3 All members of the team undertake training as part of their Continued Professional Development (CPD). This can take the form of attending externally run courses or in-house provision. A list of the courses attended is attached as **Appendix 1**. The training covers not only technical audit issues, but also subjects that the team have to consider as part of the various audits. This all forms part of the 'Knowledge of the Business' that is fundamental to the conduct of constructive audits. The team are also expected to be aware of reports going to the various panels and committees.
- 3.4 Where specialist IT audit skills are required the Internal Audit Manager has the facility to use the IT audit services provided under the contract between Eastern Internal Audit Services (formerly the Norfolk Internal Audit Consortium), based at South Norfolk District Council, and TIAA Ltd.
- 3.5 The Internal Audit service is independent of any operational responsibilities and manages its own budget. During 2020-21, line management was through the Assistant Director – Resources and Section 151 Officer. Direct access to the Leader, or Chair of the Audit Committee was available if required.
- 3.6 Internal Audit Terms of Reference were approved by the Audit Committee on 4<sup>th</sup> September 2017. These describe the scope and objectives of the service, confirm the independent status, authority and standards by which the team operate, and define the responsibilities. The audit style and content, reporting lines and resources are also included. These have been updated and will be presented to the Audit Committee in 21/22.
- 3.7 All work in 2020-21 has been performed according to the Public Sector Internal Audit Standards (PSIAS) which are mandatory. The standards, based on the Chartered Institute of Internal Auditors' (CIIA) International Professional Practices Framework and augmented by the Local Government Application Notes (LGAN), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 3.8 To ensure the internal audit function meets the PSIAS requirements, an independent external quality assessment is required every five years. Such a review was carried out in 2014 by the CIIA and the next review was due in 2019. This review is currently being procured, but as a result of Covid-19 has been delayed. A further update will be provided to Audit Committee members.

3.9 The self-assessment checklist produced by the Chartered Institute of Public Finance and Accountancy (CIPFA), consisting of 209 questions, is completed each year to ensure that the team continue to comply. The questions are split over four areas and in 16 sections. The overall result for 2020-2021 was positive, with 11 sections fully compliant and five sections partially compliant. There were no areas of non-compliance. The completed PSIAS Conformance Checklist for 2020/21 is available to Members of the Audit Committee on InSite.

#### **4. Basis of Assurance**

4.1 Each year a Strategic Audit Plan is prepared by the Internal Audit Manager, showing specific audits for the next financial year and proposals for the next few years. This is then presented to the Audit Committee to endorse. The plan for 2020-21 was agreed on 27th July 2020.

4.2 The Strategic Audit Plan for the year is constructed using the Assurance Framework as a basis, with no limitations in scope. The Assurance Framework is a risk-based tool that divides the activities of the Council into five high level, and a sixth operational / service-based domains. Within these domains various activities are risk assessed and the frequency of audits for each area is based on the results. The risk assessment includes any assurance that can be gained from external sources such as the internal audit carried out by Bedford Borough Council for payroll processing. Other sources include the work of Health and Safety specialists and Security Industry Authority 'Approved Contractor' status for CCTV.

In addition to the Assurance Framework, the Internal Audit Manager has regard for:

- Corporate Business Plan
- Discussions with the Executive Directors
- Entries on the Corporate Risk Register
- Comments from the external auditors.

4.3 2020-21 was a particularly challenging year for delivery of the audit plan. The revised plan approved in July 2020 attempted to consider the changing needs of the organisation as a result of the ongoing coronavirus pandemic. The first period of lockdown saw a significant disruption in council activity which had a direct impact upon the work of the internal audit team. The plan was approved when council services were beginning to return to a normal level. However, subsequent periods of national lockdown and tiered restrictions that could not have been foreseen at the time, again impacted upon the delivery of the audit plan.

4.4 In recognition of the issues affecting internal audit teams nationwide, CIPFA issued guidance to Internal Audit Managers on how to deal with 'limitations of scope', whereby delivery of standard audit plans may not be achievable in the current climate and aspects of the three main areas required to report upon cannot provide the adequate assurance required for the annual audit opinion.

4.5 The three main areas required to be considered when giving an annual audit opinion are: the effectiveness of internal control, risk management and governance processes.

4.6 In order to avoid having to issue a limitation of scope in any of the three areas, the Internal Audit team have considered additional work alongside of the 'traditional' audit plan to enhance the level of assurance that would otherwise have been considered. The other areas of assurance are listed below:

Internal Control:

- Review of Financial Regulations
- Review of Finance system authorisation structures
- Business Grant process and procedures
- Additional Covid-19 grant funding review and assurance reporting
- Community Infrastructure Levy Covid-19 Amendment to Regulations

Governance processes:

- Creation and Implementation of Anti-Money Laundering Policy
- Review of Anti-Fraud and Anti-Corruption Policy
- Review of Legal Services SLA
- Major Project Board attendance and review
- Covid-19 communications strategy

Risk Management:

- Business Grant fraud risk assessments
- Covid-19 building risk assessments
- Covid-19 Recovery Strategy
- Covid-19 Response monitoring.

4.4 At the end of each audit a formal report is issued, containing an action plan agreed with the relevant managers to address any control weaknesses identified during the audit. The audit reports are entered on a restricted area of InSite and Modgov for members of the Management Team and the Audit Committee to view.

4.4 Each report attributes a level of assurance gained for the area being audited as below:

Full Assurance	A sound system of internal control that is likely to achieve the system objectives, and which is operating effectively in practice.
Substantial Assurance	A sound system of internal control, but there are a few weaknesses that could put achievement of system objectives at risk.
Limited Assurance	A system of internal control with a number of weaknesses likely to undermine achievement of system objectives, and which is vulnerable to abuse or error.
No Assurance	A fundamentally flawed system of internal control that is unlikely to achieve system objectives and is vulnerable to serious abuse or error.

4.5 During the year, nine internal audit reports have been issued and the results are summarised in the table at **Appendix 2**. All of the audits for 2020-21 indicate a 'Full' or 'Substantial' level of assurance.

There were no instances of 'Limited' or 'No Assurance' reports being issued.

4.6 Each audit is followed up approximately six months after the report has been issued to establish if recommendations are being implemented in accordance with the agreed action plan. Follow-up reports for 2019-20 have been granted an extension of time to complete due to the resource implications affecting teams throughout the year.

- 4.7 A follow up review of the KLIC Lessons Learnt review was completed during 2020-21. The follow up review was very positive with 34 of the 35 recommendations being completed. Considerable progress has been made in how the council manages its major projects and all aspects of risk, control and governance has improved over the last two years.

## **5. Anti-Fraud and Anti-Corruption Procedures**

- 5.1 Work with the National Fraud Initiative (NFI) has continued this year, with checks on the majority of matches from the 2018-19 National Exercise and 2019 Flexible Matching Service being completed, and work is currently underway on the 2020-21 National Exercise and 2021 Flexible Matching Service.
- 5.2 Work with the Norfolk Fraud Hub has continued this year with approximately 75% of matches identified completed. So far, this has resulted in the removal of 254 single person discount awards resulting in identified fraud and error of £137,986. Funding has been provided by Norfolk County Council to utilise a NFI premium service. The value of funding made available so far is £71,911.
- 5.3 Post Payment Assurance work on the business grants process has commenced and will be ongoing throughout 2021/22.
- 5.4 The 'Fighting Fraud & Corruption Locally 2020'" national fraud and corruption strategy, released in March 2020, was reviewed resulting in the review and update of the Anti-Fraud and Corruption Policy.
- 5.5 The Internal Audit Team did not conduct any internal fraud investigations during 2020-21.
- 5.6 A new Anti-Money Laundering Policy was introduced in July 2020 after a gap in internal controls was identified. This policy introduces new procedures and guidance as well as the signs to look out for in respect of money laundering

## **6. Risk Management**

- 6.1 The process for reviewing and updating the Risk Register has transferred to the Performance and Efficiency Manager, but responsibility for risk management lies with the Management Team (MT). As well as receiving the Internal Audit reports for their respective areas, which provide an indication of any weaknesses in the control environment, MT also review the Corporate Risk Register on a six-monthly basis in April and October. If any significant issues arise in the intervening period, they are discussed at the time and the register amended. The Audit Committee receive the Corporate Risk Register after it has been updated at the regular six-monthly intervals.

## **7. Conclusion**

- 7.1 The system of internal control is designed to manage risk to a reasonable level, and therefore cannot provide absolute assurance.

7.2 Notwithstanding the above, based on the audit work completed during 2020-21, it is the opinion of the Internal Audit Manager that:

- Adequate assurance can be gained in respect of the overall systems of internal control operating within the council.
- Risk management systems and corporate governance arrangements are satisfactory.

## **8. Background Papers**

Strategic Internal Audit Plan 2020-21  
Public Sector Internal Audit Standards (PSIAS)  
Year-end progress report 2020-21

**Training undertaken by Internal Audit 2020-2021 included:**

Data Protection Training

Fire Awareness Training

Manual Handling

CIPFA Limitation of Scope webinar

Public Sector Fraud awareness training

## Audit reports issued during 2020-21 showing assurance levels

Audit title	Full Assurance	Substantial Assurance	Limited Assurance	No Assurance
Cyber Security		✓		
Land Charges		✓		
Whistleblowing		✓		
Car Parking and Civil Enforcement		✓		
CCTV	✓			
Contract Monitoring		✓		
Electoral Services		✓		
Planning Control		✓		
KLIC Lessons Learnt Review		✓		
Policies (expected result)		✓		
Council Offices and Sites (expected result)		✓		