
Internal Audit Annual Assurance Report 2020/21

Date of Committee:	Governance and Ethics Committee on 26 July 2021
Portfolio Member:	Councillor Howard Woollaston
Date Portfolio Member agreed report:	23 June 2021
Report Author:	Julie Gillhespey (Audit Manager)
Forward Plan Ref:	GE4029

1 Purpose of the Report

The Public Sector Internal Audit Standards (PSIAS) require the Audit Manager to make a formal annual report to those charged with governance within the Council.

2 Recommendation

That the Governance and Ethics Committee note the contents of the report.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	Not Applicable
Human Resource:	Not Applicable
Legal:	Not Applicable
Risk Management:	Internal Audit work helps to improve risk management processes by identifying weaknesses in systems and procedures and making recommendations to provide mitigation. The aim of which is to help ensure that services and functions across the Council achieve their goals and targets, and the organisation as a whole meets its plans and objectives.

Property:	Not Applicable			
Policy:	Not Applicable			
	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:		X		
Core Business:		X		

Data Impact:		X		
Consultation and Engagement:	Section 151 Officer and Monitoring Officer.			

4 Executive Summary

- 4.1 The PSIAS require the Audit Manager to make a formal report annually to those charged with governance in the Council. The report is required to include an opinion on the Council's governance, risk management and internal control framework, which in turn supports the Annual Governance Statement.
- 4.2 The audit opinion is based upon the assurance work undertaken during the year; knowledge gained from previous assurance work; as well as intelligence gained from other sources of assurance, both internal and external, for example, Ofsted and the Council's Finance and Governance Group.

4.3 Purpose of the Audit Manager's Annual Assurance Report

To provide:-

- (a) An opinion on the Council's governance, risk management and control environment;
- (b) Information to support the opinion given;
- (c) A summary of the work undertaken compared with planned;
- (d) Performance of the Internal Audit Team;
- (e) A statement as to whether the work of the Audit Team complies with the PSIAS.

4.4 Assurance Opinion

- (a) The Covid 19 pandemic has had an impact on the level of planned assurance work undertaken. However, from the assurance work undertaken and other sources of control/governance information e.g. the Finance and Governance Group officer group, the Audit Manager is able to conclude that reasonable assurance can be given that the governance, risk management and control framework remains robust.
- (b) In relation to the assurance opinions given there was one corporate audit deemed as very weak, and three corporate audits given a weak opinion. The proportion of limited assurance reports continues to be low compared with the number of completed audits during the year given a satisfactory opinion and above. All of the low assurance reports will be followed up to check on progress made on implementing agreed recommendations.

- (c) There were three Follow-up reviews completed during the year where we concluded unsatisfactory progress had been made.

4.5 Performance of the Audit Team

The team has a service performance indicator to achieve 80% of the audit plan. For 2020/21 the actual result was 81%. The team met the performance target although the outcome is lower than in previous years. The main reason for the reduction is a post being vacant for longer than had been planned for and reduced working hours due to Covid lockdowns and parental responsibilities.

5 Supporting Information

Introduction

- 5.1 The Accounts and Audit (England) Regulations (2015) require each local authority to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices.
- 5.2 The Public Sector Internal Audit Standards (PSIAS), including the CIPFA "Local Government Application Notes", require the Chief Audit Executive (the Audit Manager) to make a formal report annually to those charged with governance in the Council. The report is required to include an opinion on the Council's governance, risk management and internal control framework, which in turn supports the Annual Governance Statement.

Background

- 5.3 This report provides that opinion and includes information to support the opinion given. The report content has been compiled to conform to the requirements of the PSIAS.
- 5.4 The audit opinion is based upon the assurance work undertaken during the year and knowledge gained from previous assurance work, as well as intelligence gained from other sources of assurance, both internal and external, for example, Ofsted and the Council's Finance and Governance Group.
- 5.5 A system of internal control cannot provide total assurance that all risk has been identified and eliminated; it is used to manage the level of risk so that it is at an acceptable level for an organisation, taking into account the Council's risk appetite.

Purpose of the Audit Manager's Annual Assurance Report

- 5.6 To provide:-
 - (a) An opinion on the Council's governance, risk management and control environment;
 - (b) Information to support the opinion given;
 - (c) A summary of the work undertaken compared with the work planned;
 - (d) Performance of the Internal Audit Team;

(e) A statement as to whether the work of the Audit Team complies with the PSIAS.

Assurance Opinion

- 5.7 The Covid 19 pandemic has had an impact on the level of planned assurance work undertaken, due to specific Covid related advice and assurance work being required, together with audits being postponed where services were impacted by Covid and could not support the audit work. However, for the assurance work undertaken and other sources of control/governance information e.g. the Finance and Governance Group, the Audit Manager is still able to conclude that reasonable assurance can be given that the governance, risk management and control framework remains robust.
- 5.8 No system of control can provide absolute assurance against material misstatement or loss, therefore Internal Audit can only provide reasonable assurance. This year there were four corporate audits which had a less than satisfactory audit opinion. As with previous years, the number of limited assurance reports is very low which is the key criteria on which this annual audit opinion is based.
- 5.9 In 2018/19 the responsibility for overseeing the risk management governance framework moved to Strategy and Governance. Since that time changes have been made to the Council’s Risk Management procedures. In order to be able to comment on the effectiveness of the implementation of these changes and provide assurance on the new framework, a detailed audit review was undertaken during 2020/21, the conclusion of which was that the new framework was satisfactory/fit for purpose, although there were some areas for improvement identified.
- 5.10 There have been no limitations or restrictions on the audit plan coverage or scope of the work undertaken that could have a negative impact on the opinion. There have been no impairments to the objectivity or independence of the Audit team.

Results of Work Undertaken to Support the Opinion

5.11 Internal Audit use the following categories for their assurance work report opinions:-

Opinion Category	Definition
Very Well Controlled	Very strong control framework with only minor control weaknesses or low levels of non-compliance identified.
Well Controlled	Strong control framework with a small number of control/compliance issues identified.
Satisfactory	An adequate control framework is in place, a number of control weaknesses identified but not significant enough to cause concern.

Weak	There are a large number of control weaknesses and/or some significant control issues which are of concern.
Very Weak	The overall control framework has significant weaknesses and is not effective.

5.12 A summary of the Internal Audit assurance work completed during the year is detailed below together with the assurance opinion that was given:-

Corporate

Very weak	Weak	Satisfactory	Well Controlled	Very Well Controlled
1	3	5	5	0

Schools

Very Weak	Weak	Satisfactory	Well Controlled	Very Well Controlled
0	1	0	4	0

5.13 The first table includes three reports that are in the final stages of consultation, where the accuracy of the report content has been checked, so the audit opinion is not going to change.

5.14 The tables show that the majority of audit opinions were satisfactory or above. During the final quarter of the year there was one corporate audit given a very weak opinion, Grounds Maintenance Contract Management, there were known issues in this area which is why Internal Audit were asked to look at it, so unsurprisingly the control opinion came out as less than satisfactory. In previous quarterly updates there were three audits given a weak opinion, Digitalisation Agenda, Deprivation of Liberty Safeguards and Early Years Grant, with the key findings being reported. The findings relating to the recently completed Grounds Maintenance Audit are detailed in the following section. For the very weak and weak audits we will schedule a follow-up review to check on progress against the agreed recommendations.

5.15 Key Findings of the Very Weak Audit Opinion – Grounds Maintenance Contract Management

- (a) The contract required the contractor to implement a contract database, which would have allowed both parties to monitor performance of the contract, this

database was not implemented, and the service has yet to make a decision as to whether they will implement their own I.T. system.

- (b) Overall contract management processes are rather limited; there are no KPIs being reported on, management information covering compliance with the contract specification/remedial works is not being produced.
- (c) The service does not have an effective communication/meeting processes with the contractor resulting in a lack of strategic focus and robust contract management.

5.16 Internal Audit undertake a follow-up review in all cases where there is a weak or very weak opinion, and in some cases for a satisfactory opinion. The outcome of the follow-up work completed during the year is detailed below:-

Satisfactory Follow-up	Unsatisfactory Follow-up
0	3

5.17 At the Governance and Ethics Committee meeting in November 2019, members requested a second stage Follow-Up to be carried out on the audits covering the Implementation of the Property Database and the Asset Management Strategy/ Plan. Unfortunately, in both cases the second stage Follow-up concluded that progress to implement the agreed recommendations was still unsatisfactory. When members were provided with the outcome at the April 2021 meeting, the relevant service managers attended to give an update. Managers were confident that progress would now be made as a key vacant post had been filled and additional resource brought in to help progress the recommendations.

5.18 The third unsatisfactory follow-up relates to an audit of S106 Agreements, although progress had been made and was heading in the right direction, there was insufficient progress to be able to give a satisfactory opinion. The key points identified as still requiring action are as follows:-

- (a) A governance group / body has been allocated specific responsibility for overseeing the Developer Contributions fund (Capital Strategy Group), however they are not being provided with regular reports in order to effectively manage the S106 contributions available.
- (b) Documenting the processes and procedures involved in the administration of Developer Contributions is work in progress.
- (c) A review is required of admin fees and when they apply in light of 2019 regulations, which we were informed have tightened the rules around fees that can be charged.

The relevant managers will attend committee in order to provide a further update on progress to date/further actions planned.

Internal Audit Work Progress Update since the last Quarterly Report (as at the end of December)

5.19 The last Plan progress update was reported to the Governance and Ethics Committee in April, attached to this report are three appendices listing the work undertaken up to the end of the financial year, with completed work at Appendix A, work in progress at Appendix B, and table C showing progress on the specific Anti-Fraud Work Plan.

Audit Team Resources and Performance

5.20 The team has a service performance indicator to achieve 80% of the audit plan. For 2020/21 the actual result was 81%. This is lower than the previous year’s achievement of 94%. This reduction in productive days is a result of a post being vacant for longer than had been planned for, and also staff working reduced hours whilst looking after dependents during the periods of Covid lockdowns.

5.21 All internal audit work has been undertaken in accordance with the requirements of the PSIAS, the Core Principles of internal audit and the Code of Ethics for internal audit. Under the PSIAS there is a requirement to have an external assessment of the internal audit service every five years. The external assessment was undertaken in May 2018. The outcome of which was that the Council ‘generally conforms’, this is the highest category of compliance (the other possible conclusions being ‘partially conforms’ and ‘does not conform’).

5.22 The Audit Team currently consists of five staff; the Audit Manager, a Principal Auditor and three Senior Auditors. The Principal Auditor post was newly created in 2020/21 and has provided the additional capacity required in the team to help shorten the timeframes for progressing audits, and to lessen the impact of unplanned investigations/advisory work on the level of assurance work carried out.

Audit Plan Actual Coverage

5.23 The following table shows the level of time spent in each type of audit activity compared with the planned time:-

Audit Activity	Planned Time	Actual Time (up to allocated project time budgets)
Assurance work	662	372
Investigations (HR related/potential fraud etc.)	0	85

Audit Activity	Planned Time	Actual Time (up to allocated project time budgets)
Advisory reviews (planned and requested in year)	35	24
Covid-19 related work	0	75
Plan preparation and Monitoring (corporate and schools)	24	26
Adhoc advice requests (corporate and schools)	20	30
Follow-ups	20	24
Other (support for G&E, external professional liaison, general grant compliance work, fraud training)	39	47
Plan Contingency Days	40	Used on unplanned work
Total Days	840	683
(These are the totals that are used to calculate the productivity percentage i.e. the 81% referred to in 5.20)		

5.24 Notes to support the information in the table at point 5.23 above:-

- (a) The largest number of unplanned days was spent on investigations and Covid related audit work.
- (b) Members of the Audit Team have been heavily involved in carrying out Covid business grant fraud prevention checks which makes up a large proportion of the days spent on Covid related work. Central government mandated a range of assurance checks that should be undertaken for each phase of business grants,

some of which needed to be undertaken pre-payment so the team needed to meet this demand in a timely manner so that we did not delay payments. This work is continuing in 2021/22.

- (c) Unplanned advisory/investigatory work reduces the level of assurance work that can be undertaken in a year. The team undertook 56% of actual assurance work compared with planned, if the team had not spent time on unplanned investigation/Covid work then the days spent on planned assurance work would have been in the region of 80%.
- (d) The planned work not undertaken is reviewed as part of risk assessing and preparing the new audit plan, and rescheduled into the following year where deemed appropriate.

5.25 The Covid 19 pandemic has had an impact on the level of planned assurance work undertaken, due to specific Covid related advice and assurance work, together with audits being postponed where services were impacted by Covid and could not support the audit work. The Audit Manager has provided the Committee with updates during 2020/21 regarding Covid work and the impact on the audit plan, and will continue to do so for 2021/22.

5.26 Under the Local Government Transparency Code 2015 the Council is required to publish certain information regarding fraud. In order to meet this duty the following information is provided:-

- (a) There are no professionally accredited counter-fraud internal investigators, the Internal Audit team has the skills and experience to undertake such work where it arises (5 full-time members of staff).
- (b) There have been no occasions where the powers under the Prevention of Social Housing Fraud have been used by the Audit Team.
- (c) There were 2 fraud investigation cases Internal Audit were involved in during the year. As previously reported to Committee one case related to a cheque fraud, the police were involved in the investigation but it did not result in a prosecution. The second case related to theft of cash, lack of evidence as to whether this was an internal or external issue meant this could not be progressed to a prosecution. In both cases the controls have been improved to prevent the situations from re-occurring. There was also a small number of minor investigations where there was potential for fraud which were not substantiated.
- (d) There have been no specific costs incurred for the fraud work undertaken this year except for the salary costs for the days spent by the Audit Team on fraud related work. Cost of the days spent on investigations using an average daily salary cost was approximately £16k for 2020/21.

Proposals

5.27 Committee note the content of the report.

6 Other options considered

Not applicable, the report is for information only.

7 Conclusion

This report was produced to provide the Audit Manager's opinion on the Council's governance, risk management and control framework for 2020/21. The Audit Manager's annual audit opinion is that reasonable assurance can be provided that the Council's governance, risk management and control framework remains robust.

8 Appendices

8.1 Appendix A – Audit Work Completed during last quarter of 2020/21.

8.2 Appendix B – Audit Work in Progress as at 31st March 2021.

8.3 Appendix C – Fraud Plan

Background Papers

Subject to Call-In:

Yes: No:

The item is due to be referred to Council for final approval

Delays in implementation could have serious financial implications for the Council

Delays in implementation could compromise the Council's position

Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months

Item is Urgent Key Decision

Report is to note only

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