

# Internal Audit Annual Assurance Report 2020/21

<b>Committee considering report:</b>	Governance and Ethics Committee
<b>Date of Committee:</b>	25 July 2022
<b>Portfolio Member:</b>	Councillor Tom Marino
<b>Date Head of Service agreed report:</b> <i>(for Corporate Board)</i>	8 June 2022
<b>Date Portfolio Member agreed report:</b>	
<b>Report Author:</b>	Julie Gillhespey (Audit Manager)
<b>Forward Plan Ref:</b>	GE4226

## 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
<b>Financial:</b>	Not Applicable
<b>Human Resource:</b>	Not Applicable
<b>Legal:</b>	Not Applicable
<b>Risk Management:</b>	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.

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

<b>Core Business:</b>		X		
<b>Data Impact:</b>		X		
<b>Consultation and Engagement:</b>	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) For a second year 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, 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 given a weak opinion. The proportion of limited assurance reports continues to be very low compared with the number of completed audits during the year given a satisfactory opinion and above. The low assurance report will be followed up to check on progress made on implementing agreed recommendations.

- (c) There was one Follow-up review 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 2021/22 the actual result was 86%, an improvement on the previous year's 81%.

## **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) Information on the 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 For a second year 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, from 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 was only one corporate audit 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 An audit of the new risk management framework was carried out in 2020/21, the conclusion was that the new framework was satisfactory/fit for purpose, although there were some areas for improvement identified. During 2021/22 we carried out a follow-up review of the Risk Management audit and concluded that satisfactory progress had been made on the implementing our recommendations.
- 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.
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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
0	1	9	4	0

**Schools**

Very Weak	Weak	Satisfactory	Well Controlled	Very Well Controlled
0	1	8	9	1

5.13 The first table includes six 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. There was only one corporate review that was given a less than satisfactory opinion, Adult Social Care Carers Payments, the key issues of which were reported to Committee in the Quarter 3 Update Report. The outcome of school reviews was very positive with over 50% achieving well controlled or above. Only one school was identified in the weak category, the i-college, again the key outcomes have previously been reported to Committee. For both weak audits a Follow-up is in progress.

5.15 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
3	1

- 5.16 The unsatisfactory follow-up relates to the audit of Deprivation of Liberty Safeguards (DoLS).
- 5.17 From the 9 agreed recommendations, we found that 5 had been fully implemented. From the 4 not implemented, 3 were partially agreed, although the service manager agreed with the principle of these recommendations, there was limited resource within the team to action them, and the intention was for them to be progressed as part of the implementation of the legislation to replace DoLS (Liberty Protection Safeguards - LPS) and associated improvements to the use of Care Director v.6 for DoLS administration.
- 5.18 The outstanding recommendations relate to setting and monitoring performance management targets in respect of processing of applications, and establishing a monitoring process for Court of Protection DoLS applications.
- 5.19 Where there is an unsatisfactory opinion given for a follow-up the usual practice is for the relevant managers to attend committee in order to provide a further update on progress to date/further actions planned. In this case the Audit Manager deemed this was not necessary as the outstanding actions are all linked to the forthcoming change of legislation (LPS) and Care Director upgrade.

#### **Internal Audit Work Progress Update since the last Quarterly Report**

- 5.20 The last Plan progress update was reported to the Governance and Ethics Committee at the April meeting, 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**

- 5.21 The team has a service performance indicator to achieve 80% of the audit plan. For 2021/22 the actual result was 86%, which was an improvement on the previous year's result of 81%.
- 5.22 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 last 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').
- 5.23 The Audit Team currently consists of five posts; the Audit Manager, a Principal Auditor and three Senior Auditors. One of the Senior Auditor posts became vacant in June this year, an initial recruitment exercise was not successful, a further attempt will be made in a few months' time.

**Audit Plan Actual Coverage**

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

<b>Audit Activity</b>	<b>Planned Time</b>	<b>Actual Time (up to allocated project time budgets)</b>
Assurance work	599	441
Investigations (potential fraud etc.)	0	5
Advisory reviews (planned and requested in year)	41	41
Covid-19 related work	60	99
Plan preparation and Monitoring (corporate and schools)/G&E Update Reports	32	44
Adhoc advice requests (corporate and schools)	20	44
Follow-ups	20	22
Other (external professional liaison, general grant compliance work, fraud training, monitoring of SFVS returns)	34	44
Plan Contingency Days	50	Used on unplanned work
<b>Total Days</b>	<b>856</b>	<b>740</b>



(These are the totals that are used to calculate the productivity percentage i.e. the 86% referred to in 5.21)

5.25 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) The Audit Team have again this year 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.
- (c) Unplanned advisory/investigatory work reduces the level of assurance work that can be undertaken in a year. The team undertook 74% 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 81%.
- (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.

5.26 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 2021/22 regarding Covid work and the impact on the audit plan, at the end of the year the team had spent 99 days on Covid related work (equates to approx. 57% of one auditor's annual time budget).

5.27 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 (4 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 was one potential fraud case that was made via a whistleblower. After an initial investigation we considered there was no evidence to support the allegations.

- (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 the potential fraud case stated above (using an average daily salary cost) was approximately £1,165 for 2021/22.

## Proposals

5.28 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 2021/22. 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 2021/22.

8.2 Appendix B – Audit Work in Progress as at 31<sup>st</sup> March 2022.

8.3 Appendix C – Fraud Plan Progress as at 31<sup>st</sup> March 2022.

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### 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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