

AUDIT COMMITTEE – 12th July 2022

Report of the Head of Strategic Support

Part A

ITEM 7 2021/22 INTERNAL AUDIT ANNUAL REPORT

Purpose of Report

The purpose of this report is to present the Internal Audit annual report, which is one of the sources of evidence used to inform the production of the Annual Governance Statement.

Recommendation

The Committee notes the annual report of the Chief Audit Executive as appended to this report.

Reason

To enable the Committee to consider the report prior to receiving the Annual Governance Statement for consideration.

Policy Justification and Previous Decisions

As set out in Public Sector Internal Audit Standard (PSIAS) 2450, the Chief Audit Executive must provide an annual report to the board (Audit Committee) timed to support the Annual Governance Statement. This report and opinion should be considered as part of the evidence supporting the Annual Governance Statement.

Implementation Timetable including Future Decisions

The Annual Governance Statement will be considered by the Audit Committee at its meeting on 8th November 2022.

Report Implications

The following implications have been identified for this report.

Financial Implications

None

Risk Management

There are no risks associated with this decision.

Background Papers: Public Sector Internal Audit Standards

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Part B

Appendix

2021/22 Internal Audit Annual Report



INTERNAL AUDIT SHARED SERVICE

Charnwood Borough Council

Internal Audit Annual Report 2021/22

1. INTRODUCTION

- 1.1 This is the annual report of the Chief Audit Executive (Audit Manager) as required by the Public Sector Internal Audit Standards (PSIAS). It covers the period 1 April 2021 to 31 March 2022 for Charnwood Borough Council.
- 1.2 This report includes the Audit Manager's annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 1.3 This report also includes:
- A summary of internal audit work carried out during 2021/22 which supports the opinion.
 - Issues relevant to the preparation of the Annual Governance Statement.
 - Internal Audit's Quality Assurance and Improvement Programme (QAIP).
 - A statement on conformance with the Public Sector Internal Audit Standards.

2. CHIEF AUDIT EXECUTIVE (AUDIT MANAGER) OPINION 2021/22

- 2.1 2021/22 has been a difficult and unusual year for everyone, including Internal Audit, with the restrictions changing due to the ongoing pandemic. Home working arrangements are more settled, and internal audit has continued to provide the additional support required for assurance on Covid-19 Business Grants.
- 2.2 In line with the Public Sector Internal Audit Standards Internal Audit have worked flexibly throughout the year whilst still ensuring a sufficient level of audit coverage to allow me to give an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control (the control environment). In giving this opinion it should be noted that assurance cannot be absolute.
- 2.3 For the 12 months ended 31 March 2022, I am able to give **reasonable assurance** on the overall control environment. To be consistent with our Internal Audit opinion definitions, this means that there is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement, were identified which may put at risk the achievement of objectives in the areas audited. This is a positive assurance opinion overall.
- 2.4 My opinion is based on the following:
- **All** internal audit work undertaken during the year, this includes advisory work as well as assurance audits that resulted in a final report, and supports the view on internal control arrangements. This also includes the work that was undertaken to deliver the Business Grants Assurance processes both pre and post payment.

Consideration has been given to findings of audits at the draft report stage.

- Follow up audit work in respect of audit recommendations.
- My knowledge of the Council's governance and risk management structure and processes.

2.5 There have been no impairments to the independence of internal auditors during the year.

3. SUMMARY OF INTERNAL AUDIT OPINION REPORTS DURING 2021/22

3.1 The risk based internal audit plan for 2021/22 was presented and approved by the Audit Committee on 9th February 2021. Progress against this plan has been reported to Audit Committee throughout the year as part of the regular Internal Audit progress reports.

3.2 A summary of the final audit opinions given in 2021/22 is detailed in Table 1 below. This includes 3 IT audits which were provided by specialist auditors. The opinion for individual audits is included in Appendix A for information, along with a comparison of the work delivered against the audit plan.

Table 1

Opinion	Definition	Number
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited	3
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited	8
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	4
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited	-
Total audit reports		15

3.3 Internal Audit follow up progress against recommendations in line with the timescales agreed at the time of issuing reports. The Audit Committee is updated on the Council's progress against the recommendations as part of the Internal Audit progress reports, as well as giving details of ongoing or

overdue recommendations. A summary of the recommendation tracking results for 2021/22 is included at Appendix B.

4. ISSUES RELEVANT TO THE PREPARATION OF THE ANNUAL GOVERNANCE STATEMENT

- 4.1 The Internal Audit team have issued 4 audit reports with limited assurance during 2021/22. These should be considered when preparing the Annual Governance Statement:
- **Risk Management**
The main areas identified for improvement were around the updating of policies and procedures, training for both staff and members, and consistency across all risk registers with links to the relevant corporate strategies needing to be developed.
 - **Asset Management**
The main areas identified for improvement were the strategy and supporting policies and guidance need creating, increased communication with the insurance officer and a comprehensive single data source needs to be developed to record adequate information on assets to enable evidence-based decision making.
 - **Choice Based Lettings**
The main areas identified for improvement were the banding of applicants to ensure that the waiting list was accurate and relevant, and performance monitoring reporting to be reintroduced.
 - **HRA Electrical Safety**
The main areas identified for improvement were that issues identified needed to be monitored, reviewed and with appropriate certification being received, a forward planning programme to be developed to ensure that properties are inspected in line with legislation, and procedure guides are developed to ensure consistency and assist with business continuity.
- 4.2 A number of high priority recommendations were made in respect of other audit reviews undertaken, however as they relate to specific systems and/or service areas, I do not consider it necessary to include them in the Annual Governance Statement. The Section 151 Officer receives all Internal Audit reports issued therefore they are also able to make their own assessment when completing the Annual Governance Statement should they be of a different opinion.

5. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP) FOR INTERNAL AUDIT

- 5.1 The Public Sector Internal Audit Standards (PSIAS) require the QAIP to include internal and external assessments (see Appendix C for more detail).
- 5.2 The internal assessments applicable to 2021/22 include the following:

- Monthly performance review meetings attended by the Audit Manager and the Strategic Director of Environmental and Corporate Services (S151 Officer) and the Head of Strategic Support (Monitoring Officer).
 - Customer satisfaction surveys were sent out to all Heads of Service and Managers who had an audit in their service area. Six returns for 2021/22 all with overall positive feedback.
 - Quarterly progress reports to senior management and Audit Committee which include monitoring of activity and performance.
- 5.3 The PSIAS require external assessments to be conducted at least once every five years. In December 2020 the shared internal audit service had an external quality assessment and the full report was presented to Audit Committee on 9th February 2021.
- 5.4 It was the assessor's opinion that internal audit at Blaby, Charnwood and North West Leicestershire Councils **conforms with the PSIAS**.
- 5.5 In addition to delivering the annual audit plan and opinion, Internal Audit have added value in the following ways:
- Co-ordinating the mandatory NFI COVID-19 grants exercise including data submission and reviewing matches.
 - Designing and delivering pre and post payment assurance checks for the Covid-19 Business Grants as well as successfully recovering a number of erroneous, non-compliant or fraudulent grants.
 - Undertaking the Benefits Subsidy work, this was previously undertaken by the external auditors, but due to independence issues has now come under the remit of Internal Audit.
 - Providing ad-hoc advice throughout the year to a wide range of services to help ensure that internal controls are maintained or strengthened.
 - The continued delivery of a successful shared service between Blaby District Council, North West Leicestershire District Council and Charnwood Borough Council. This adds value to all Councils as the audit team shares learning, expertise and best practice.

6. **CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

- 6.1 The external assessment conducted in December 2020 concluded that there were no significant gaps in compliance.
- 6.2 I can confirm that during 2021/22 the Internal Audit Shared Service conformed to the Public Sector Internal Audit Standards.

RESULTS OF INDIVIDUAL AUDIT ASSIGNMENTS AGAINST 2021/22 AUDIT PLAN

Audit Area	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations				Comments
						C	H	M	L	
Environmental & Corporate Service										
Fleet Management	Audit	10	12	Completed	Reasonable	-	3	2	-	
Risk Management	Audit	10	8	Completed	Limited	-	3	5	-	
Main Accounting	Audit	5	3.5	Completed	Substantial	-	-	-	-	
Creditors	Audit	8	12	Completed	Reasonable	-	4	4	1	
Benefits Subsidy	Assurance		74	Completed	N/A					Addition to the plan
Covid-19 related assurance	Assurance	40	83	As required	N/A					Higher than planned due to new grants and level of checking required by central government.
Commercial Development, Asset & Leisure										
Asset Management	Audit	10	12	Completed	Limited	-	7	3	1	
Commercial Property Project	Audit	10	12.5	Completed	Reasonable	-	2	2	-	
Commercial Lettings	Audit	10	16.5	Completed	Reasonable	-	2	5	-	
Community, Planning & Housing										
Acquisitions Policy	Audit	8	9	Completed	Reasonable	-	2	3	1	
Choice Based Lettings	Audit	10	15	Completed	Limited	-	5	5	2	
Stray Dog Contract	Audit	10	9	Completed	Reasonable	-	-	3	-	Addition to the plan
Disabled Facilities Grants	Certification	5	2.5	Completed	N/A					
Building Control	Audit	8	7	Completed	Reasonable	-	3	4	-	Joint audit with NWLDC
Electrical Safety	Audit	8	9	Completed	Limited	-	4	3	-	
BDO Audit										
IT Project Management	Audit	BDO		Completed	Substantial	-	-	-	1	
IT and Cloud Strategy	Audit	BDO		Completed	Substantial	-	-	-	-	
Data Governance and Operational Cloud Security	Audit	BDO		Completed	Reasonable			1		

Recommendations Key – see Appendix B

SUMMARY OF INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP 2021/22

Internal Audit follow up progress against critical, high and medium priority recommendations in line with the timescales agreed at the time of issuing reports. Any overdue recommendations are highlighted to Audit Committee. The table below shows the progress against recommendations made by Internal Audit during 2021/22.

Recommendation Priority	Recommendations Made	Recommendations Implemented	Recommendations Outstanding (In Progress or Not Yet Due)	Recommendations Overdue
High	35	11	14	10
Medium	40	19	14	7
Total	75	30	28	17

Level	Definition
Critical	Recommendations which are of a very serious nature and could have a critical impact on the Council, for example to address a breach in law or regulation that could result in material fines/consequences.
High	Recommendations which are fundamental to the system and require urgent attention to avoid exposure to significant risks.
Medium	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Low/Advisory	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed. Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Appendix C

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME 2021-22

Activity	PSIAS	Result/comments	Frequency
External Quality Assessment	1310	December 2020 Assessment - no significant gaps in compliance.	Every 5 years.
Annual Declaration of Interests	1130	Forms completed in April 2021, this includes Code of Ethics and Principles.	Annual
Customer satisfaction surveys	1311	Six for 2021/22. All positive overall.	After each audit
Performance indicators reported in progress reports	1311	Performance indicators included in all quarterly reports to senior management and Audit Committees.	Quarterly
Improvement actions/continuous improvement	1311	An internal action plan produced for 2021/22 detailing improvement actions which included rolling review of the internal audit service to ensure compliance with standards.	Ongoing
Review of all audit engagements and reports	1311, 2340	All audit engagements and reports are reviewed by another auditor to ensure compliance with PSIAS in terms of meeting audit objectives and quality.	Every audit
Monthly performance reporting and meetings	1311	Monthly performance meetings with Strategic Director of Environmental and Corporate Services (S151 Officer) and the Head of Strategic Support (Monitoring Officer)	Monthly
Annual review of internal audit charter	1000	Shared Service Charter updated with only minor amendments and reported to Audit Committee in October 2021. Annual review takes place in September each year.	Annual
Performance and development review process for staff and training and development records.	1200	All review meetings with team have taken place and the training and development recorded within system for all training and development identified and completed. Officers recording their CPD in line with their professional body requirements do not need to duplicate records.	Bi- annual review meetings