

AUDIT COMMITTEE – 8th JUNE 2021

Report of the Head of Strategic Support

Part A

ITEM 7 2020/21 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 21st July 2021.

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

2020/21 Internal Audit Annual Report



INTERNAL AUDIT SHARED SERVICE

Charnwood Borough Council

Internal Audit Annual Report 2020/21

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 2020 to 31 March 2021 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 2020/21 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 2020/21

- 2.1 2020/21 has been a difficult and unusual year for everyone, including Internal Audit. The 2020/21 annual audit plan that was prepared and approved in March 2020 quickly became outdated as the pandemic started to take hold. The previously office-based working arrangements for most staff almost overnight became home-based and the Council focused on business-critical services for a period of time. As documented in the reports to Audit Committee, the work of Internal Audit has had to change to respond to the changing risks and priorities and 'normal' audit work was suspended briefly. The original Internal Audit plan was reviewed and a revised plan was agreed in September 2020. A key element of the revised plans was full audits of all key financial systems as well as advising and providing assurance on the 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 2021, 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. From review of Committee meetings minutes, it is clear that although meetings changed to being conducted remotely and there was some initial disruption, the business of those meetings and the expected decision routes was not adversely affected overall. A new risk register was set up to manage and monitor Covid-19 related risks in addition to strategic risk management arrangements.

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

3. SUMMARY OF INTERNAL AUDIT OPINION REPORTS DURING 2020/21

3.1 The risk based internal audit plan for 2020/21 was presented and approved by the Audit Committee on 11th March 2020. As described above this was revisited during the year to ensure that the audit plan reflected the changing risk environment and would continue to provide assurance on the overall adequacy and effectiveness of internal controls, risk management and governance across a range of higher risk financial and organisational areas. The revised plan was approved on 22nd September 2020. 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 2020/21 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	8
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.	1
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		17

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 2020/21 is included at Appendix B.

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

4.1 All internal audit reports issued during 2020/21 had either substantial or reasonable assurance opinions, apart from the Asbestos Management Audit which was given limited assurance. Two of the areas identified for improvement had already been identified by the new Compliance Manager; a lack of day to day documented procedures and re-inspections of communal properties not being inspected on an annual basis as prescribed in the asbestos management plan, therefore no recommendations were made relating to these areas. Four high and eight medium priority recommendations were made covering:

- Inconsistencies between the Operational Procedure – Asbestos Management Plan and the actual processes followed.
- Inconsistencies with performance information provided by the contractor.
- Contract management and adherence to contract procedure rules.
- Full completion of the asbestos register with next survey dates, actions and works details.

4.2 A small 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 2020/21 include the following:
- Actions to align and co-ordinate 3 authorities in the shared service and review all shared service templates and the audit manual.
 - All shared service authorities adopted the CIPFA recommended Internal Audit opinion model and a standard format for recording and monitoring follow up of audit recommendations.
 - 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. Three returns for 2020/21 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 which took the form of validation of a self-assessment completed by the Audit Manager. The validation was carried out by an appropriately qualified and experienced assessor, through a process of interviews with key officers at each authority and Chairs of Audit Committees, and document review.
- 5.4 It was the assessor's opinion that internal audit at Blaby, Charnwood and North West Leicestershire Councils **conforms with the PSIAS**. She identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity and the team takes a flexible, structured and focussed approach to their audit assignments. She identified two minor non-compliances with the PSIAS, neither of which affects the activities of the team. The full report was presented to each Audit Committee.
- 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 exercise including data submission and supporting services in reviewing their 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.
 - Supporting an internal review to ensure that internal controls are robust with recommendations made to support improvements where appropriate.
 - Providing ad-hoc advice throughout the year to a wide range of services to help ensure that internal controls are maintained or strengthened.
 - Delivering a successful shared service to Blaby District Council and Charnwood Borough Council from 1st April 2020. 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 2020/21 the Internal Audit Shared Service conformed to the Public Sector Internal Audit Standards.

RESULTS OF INDIVIDUAL AUDIT ASSIGNMENTS AGAINST 2020/21 AUDIT PLAN

Audit Area	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations				Comments
						C	H	M	L/A	
STRATEGIC AND PRIVATE SECTOR HOUSING										
Disabled Facilities Grant	Certification	3	6	Completed	Not applicable					Planned days exceeded due to completing audit remotely and new queries raised. Actions agreed to help make the process smoother next year.
Choice Based Lettings	Audit	8		Deferred to 2021/22						Moved to 21/22 audit plan due to service capacity to support the audit.
LANDLORD SERVICES										
Fire Safety and Management	Audit	8	3.5	Report drafting						
Gas Servicing Contract Monitoring	Audit	8	5	Final Report Issued	Reasonable	-	1	3	1	
Asbestos Management	Audit	8	6	Final Report Issued	Limited	-	4	8	-	
PLANNING AND REGENERATION										
Development Control	Audit	10	12	Final Report Issued	Substantial	-	-	-	2	
Tree Preservation Orders	Audit	6	11.5	Final Report Issued	Reasonable	-	-	1	-	Planned days exceeded as new area for auditor.
CUSTOMER EXPERIENCE										
Benefits	Audit	8	7.5	Final Report Issued	Substantial	-	-	-	-	
Council Tax	Audit	8	9	Final Report Issued	Substantial	-	-	-	1	

Audit Area	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations				Comments
						C	H	M	L/A	
NNDR (Business Rates)	Audit	8	9	Final Report Issued	Reasonable	-	2	7	1	
Income Collection	Audit	8	7	Final Report Issued	Reasonable	-	-	3	4	
FINANCE AND PROPERTY										
Creditors	Audit	8	10	Final Report Issued	Reasonable	-	-	2	2	Audit has taken longer due to difficulties in obtaining information required for the audit.
Debtors	Audit	8	5	Report drafting						
Main Accounting System and Budgetary Control	Audit	8	3.5	Final Report issued	Substantial	-	-	1	2	
Payroll	Audit	8	17	Final Report issued	Substantial	-	-	1	1	Days exceeded due to level of testing which will be reviewed going forwards.
Rent Accounting	Audit	8	7	Draft report issued						
Treasury Management	Audit	8	7	Final Report issued	Substantial	-	-	-	1	
Right to Buy	Audit	10	7	Final Report issued	Reasonable	-	3	1	2	
BDO Audits										
Office 365 Security and Remote Connections	Audit	18	BDO Audit	Final Report issued	Substantial	-	-	3	-	
IT Application Controls and Backups	Audit	9	BDO Audit	Final Report issued	Reasonable	-	-	3	-	
IT Third Party and Cloud Supplier Management	Audit	10	BDO Audit	Final Report issued	Substantial	-	-	-	1	

Recommendations Key – see Appendix B

Appendix B

SUMMARY OF INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP 2020/21

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 2020/21. The reason that there is such a high proportion of recommendations in progress or not yet due is because 'normal' internal audit work did not resume September 2020 (as reported to Audit Committee) and the majority of final audit reports have been issued since 1st January 2021.

Recommendation Priority	Recommendations Made	Recommendations Implemented	Recommendations Outstanding (In Progress or Not Yet Due)	Recommendations Overdue
Critical	-	-	-	-
High	10	2	7	1
Medium	33	2	31	-
Total	43	4	38	1

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 2020-21

Activity	PSIAS	Result/comments	Frequency
External Quality Assessment	1310	December 2020 Assessment - no significant gaps in compliance. Full final report presented to each Audit Committee. Two minor recommendations and two formal suggestions for improvement in the final report are all being progressed.	Every 5 years.
Annual Declaration of Interests	1130	New form used to incorporate Code of Ethics and Principles from April 2020.	Annual
Customer satisfaction surveys	1311	Three for 2020/21. 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 2020/21 detailing improvement actions which included actions to align and co-ordinate 3 authorities in shared service and review all shared service templates and audit manual. All authorities adopted the CIPFA recommended Internal Audit opinion model and a standard format for recording and monitoring follow up at audit recommendations.	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. As a new opinion model was being used with new team members all audit reports for every authority have been reviewed by both the Senior Auditor and the Audit Manager to ensure consistency.	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	Template Shared Service Charter created May 2020 and adopted by all partners. Annual review 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 form introduced in April 2019 to record all training and development continues to be used. Officers recording their CPD in line with their professional body requirements do not need to duplicate records.	Bi- annual review meetings