

ANNUAL INTERNAL AUDIT REPORT 2020/21



Report By: Neil Carpenter
Internal Audit Manager

Date: 30 April 2021

1. Purpose of the Annual Internal Audit Report

1.1 The Accounts and Audit Regulations 2015 requires the Council to ensure that a sound system of internal control exists. The system of internal control is designed to ensure that the council is able to achieve its aims and objectives, comply with the law, ensure financial management is effective, safeguard assets from losses due to fraud and error and have effective arrangements in place to manage risk.

1.2 In accordance with the Public Sector Internal Audit Standards and, to support the content of the Annual Governance Statement, The Internal Audit Manager must provide a report to those charged with governance, that sets out:

- The effectiveness of the Council's risk management and internal control environment.
- Presents a summary of the audit work from which the opinion is derived
- Discloses any qualifications to that opinion together with the reasons for the qualification.
- Compares the work undertaken with the work that was planned and summarise the performance.
- Reports on the performance of the internal audit function.
- Comments on compliance with the Public Sector Internal Auditing Standards.

2.0 Internal Audit Approach

- 2.1 This report will provide the annual internal audit opinion on the internal control framework that the Council had in place for 2020/21. In order to provide this opinion Internal Audit carried out a number of planned reviews identified within the annual internal audit plan.
- 2.2 A risk based Internal Audit Plan for 2020/21 was approved by the Audit Committee in July 2020. This is normally approved at the March meeting of the Audit Committee. However, due to the impact of COVID-19 this meeting did not take place and the first opportunity that the Audit Committee had to approve the plan was July 2020.
- 2.3 Each review included in the annual plan results in a formal report being issued to management, a summary of the final report will be reported to the Audit Committee.
- 2.4 Due to the impact of COVID-19 during 2020/21 our plan for 2020/21 had to be reduced and we had to prioritise our work to focus on our financial system reviews. This was because the internal audit resource was used to carry out other priority work to respond to COVID-19. At the time of writing this report there are two reports still outstanding from our 2020/21 Internal Audit Plan, these being Treasury Management and Housing Benefits. Whilst formal reports have not yet been issued for these reviews, we believe that sufficient testing and fieldwork has been completed to enable an opinion on the internal controls in place to be provided. A summary of our work together with the overall opinion on the internal control framework is shown below:

Area of Review	Opinion Provided
Accounts Payable	Satisfactory
Accounts Receivable	Satisfactory
Cash/Income Management	Satisfactory
Council Tax & Business Rates	Satisfactory
IT Controls	Satisfactory
Main Accounting	Substantial
Payroll	Limited
Section 106 Agreements	Satisfactory
Treasury Management	Opinion not yet provided
Housing Benefits	Opinion not yet provided

- 2.5 Work undertaken during the year has been carried out in accordance with the Public Sector Internal Auditing Standards.
- 1.6 For each review carried out an opinion was provided on the adequacy of the system of internal control. There are four categories of assurance on internal control that can be provided these being:

Level of Assurance
Substantial assurance: can be given where there is a sound system of controls in place which are applied consistently to enable achievement of the intended objective.
Satisfactory assurance: can be given when there is generally a sound system of internal control in place with only minor lapses, and in general objectives are being achieved.
Limited assurance: is given where controls in place are not always applied and objectives may not be achieved, meaning the Council is exposed to the risk of financial loss, fraud or the loss of reputation.
No assurance: is given where weaknesses in control has resulted if a failure to achieve objectives.

3.0 Internal Audit Opinion

- 3.1 The annual opinion on the risk and control framework provided by the Audit Manager is based on:
- The levels of assurance provided on each internal audit review carried out.
 - That appropriate actions are taken by management to resolve risk issues identified by Internal Audit during 2020/21.
 - That during 2020/21 no significant frauds were identified.

- Internal controls were sufficient to prevent attempts of fraud.
- That appropriate processes were in place to manage risk.
- That the internal control framework was sufficient for services to be provided effectively.

3.2 During 2020/21 a limited level of assurance was provided on 1 internal audit review, compared to 7 in 2019/20. We provided a satisfactory level of assurance on 6 reviews, compared to 5 in 2019/20. We provided a substantial level of assurance on 1 review, compared to 0 in 2019/20.

3.3 Whilst we did receive appropriate responses from management to resolve risk issues identified during 2020/21. We will follow up on high risk issues raised during the year.

3.4 We believe that there are sufficient controls in place to manage the risk of fraud.

3.5 We believe that appropriate processes were in place to manage risk during 2020/21.

3.6 I am satisfied that based on the resources available that sufficient work has been carried out during 2020/21, to draw a reasonable conclusion on the effectiveness of the council's internal control and risk management framework.

3.7 However, It is important to note that the overall opinion on the internal control framework is not based solely on assurances from internal audit reviews. Other factors are also considered which include:

Requirement	Achieved
Statutory officers are all in place and have been throughout the year.	Yes
Internal controls have been sufficient to mitigate the risk of fraud.	Yes
Internal controls are sufficient to ensure intended outcomes of the Council have been substantially met.	Yes
The Council has maintained an appropriate level of services to our customers and stakeholders during the year.	Yes
Appropriate separation of duties is in place.	Yes
An effective governance structure	Yes

- 3.9 No opinion can be absolute it is not possible to eliminate risk completely. Internal controls in place are considered to be sufficient to manage risk to a level that is acceptable to the Council. The overall opinion provided on the internal control framework for 2020/21 is therefore considered to be **satisfactory**.
- 3.10 However there are qualifications to this opinion. These qualifications are based on internal audit reviews where only a limited opinion was provided on the internal control framework was provided. The reasons for qualifications are given below:

Area of Review	Reasons for Limited Opinion
Payroll	Data Management weaknesses Up to date and readily available key HR policies were not always easy to find. The Starters and Leavers process is still not applied consistently by managers. Need to review and update Disclosure Barring Service Framework

4.0 Compliance with Public Sector Internal Auditing Standards

- 4.1 The service substantially complies with the requirements of the Public Sector Internal Auditing Standards, a review of performance against the standards was carried out in March 2020, as part of reporting and monitoring compliance, a summary of the current status is shown below.

Category	Number of Standards	Standards Met	Standards Partially Met	Standards Not Met
Code of Ethics	12	12	0	0
Purpose, authority and responsibility	3	3	0	0
Independence and objectivity	12	12	0	0
Proficiency and due professional care	12	12	0	0
Quality assurance and improvement programme	7	5	0	2
Managing the internal audit activity	10	9	1	0
Nature of work	13	13	0	0
Engagement planning	18	16	2	0

Performing the engagement	8	8	0	0
Communicating results	16	16	0	0
Monitoring progress	3	2	1	0
Communicating the acceptance of risks	1	1	0	0
Public Sector Specific Standards	14	13	1	0
	129	122	5	2

5.0 Fraud

- 5.1 Internal Audit will always consider the risk of fraud in all reviews that are carried out. It should be noted that during 2020/21, other than Housing Benefit and Single Person Discount Fraud, no individual frauds were identified that have had significant impact on financial resources or loss of assets.
- 5.2 During 2020/21 we carried out a Fraud Risk Assessment. The purpose of the assessment is to review the effectiveness of the internal control framework in place to manage the risk of fraud. We believe that an appropriate internal control was in place during 2020/21 to provide reasonable assurance that fraud risks are managed.
- 5.2 The Audit Manager is the key contact for managing the follow up of data matches identified as part of the National Fraud Initiative.
- 5.4 Fraud Awareness and Cyber Security Training was provided to all employees and to members during 2020/21.

6.0 Risk Management

- 6.1 Responsibility for the management of risk lies with management. Internal Audit facilitate the process and will review the effectiveness of controls in place to manage risk.
- 6.2 The Council has a Corporate Risk Register in place which is reviewed on a regular basis and is reported half yearly to Overview & Scrutiny. Each service also has a Risk Register in place.
- 6.2 The effectiveness of the risk management framework is reported to the Audit Committee. Internal Audit are satisfied that the framework in place is satisfactory.