

AUDIT COMMITTEE

29 JULY 2021

REPORT OF INTERNAL AUDIT MANAGER

A.1 REPORT ON INTERNAL AUDIT – MARCH 2021 - JULY 2021 AND THE ANNUAL REPORT OF THE INTERNAL AUDIT MANAGER

(Report prepared by Craig Clawson)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide a periodic report on the Internal Audit function for the period April 2021 – June 2021 and the Internal Audit Managers Annual Report for 2020/21 as required by the professional standards.

EXECUTIVE SUMMARY

This report is split into three sections with a summary as follows:

1) Internal Audit Plan Progress 2020/21

- The 2020/21 Internal Audit Plan was completed with sufficient work undertaken in order for the Internal Audit Manager to provide an opinion in the Annual Head of Internal Audit Report.
- All audits within the Internal Audit Plan have been completed with only two receiving an overall audit opinion of 'Improvement Required'. All other audits within the plan received a satisfactory level of assurance.

2) Annual Report of Internal Audit Manager

- The Annual Report of the Internal Audit Manager concludes that an unqualified opinion of Adequate Assurance is provided.
- Work carried out throughout the year by the Audit Committee, Senior Management and the Internal Audit Team is in line with guidance provided by CIPFA on the 'Head of Internal Audit Opinion due to the impact of COVID-19' released in November 2020.

3) Internal Audit Plan Progress 2021/22

- Two audits have been complete receiving Substantial Assurance.
- A further four audits are in fieldwork with another two audits allocated.

RECOMMENDATION(S)

That the contents of the report be noted.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES
Provision of adequate and effective internal audit helps demonstrate the Council's commitment to corporate governance matters.
FINANCE, OTHER RESOURCES AND RISK
Finance and other resources The Internal Audit function is operating within the budget set.
Risk Review of the functions of the Council by Internal Audit assists in identifying exposure to risk, and its mitigation.
LEGAL
<p>The Council has a statutory responsibility to maintain adequate and effective internal audit.</p> <p>The Accounts and Audit Regulations 2015 make it a statutory requirement that the Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards and guidance.</p>
OTHER IMPLICATIONS
<p>Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below. Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.</p> <p>Internal Audit activity assists the Council in maintaining a control environment that mitigates the opportunity for crime.</p> <p>During the course of internal audit work issues regarding equality and diversity, and health inequalities may be identified and included in internal audit reports.</p> <p>There is no specific effect on any particular ward.</p>

PART 3 – SUPPORTING INFORMATION

BACKGROUND
<p>The Public Sector Internal Audit Standards require the Acting Audit and Governance Manager to make arrangements for reporting to senior management (Management Board) and to the board (Audit Committee) during the course of the year, and for producing an annual Internal Audit opinion and report that can be used to inform the Annual Governance Statement.</p>

INTERNAL AUDIT PLAN PROGRESS 2020/21

The 2020/21 Internal Audit Plan is complete with the exception of two audits being deferred to the 2021/22 Internal Audit Plan and replaced with three audits that had been identified due to the emerging risks from the COVID-19 pandemic. The Audit Committee agreed the changes to the audit plan in October 2020.

A total number of nine audits were completed during April 2021 to June 2021 receiving satisfactory assurance opinions with no significant issues being identified.

Internal Audit continues to provide advice on internal control, risk management and governance arrangements on a consultative basis. Further to completing audits within the agreed plan, the team attend meetings on Digital and Office Transformation, New system / process implementations in areas such as Leisure Services, Princes Theatre and the Accountancy.

We have also continued to provide advice and support in areas such as procurement, payroll and grant management to ensure constitutional and legal requirements are met in new or unique circumstances.

We remain focussed on delivering the message that we are here to support services and by letting us know about policy and procedural changes, difficult circumstances or just the unknown due to working on new projects / initiatives, we can advise and support at an early stage rather than create additional work at a later date if governance or internal control issues are identified during an audit at a later date.

Quality Assurance – The Internal Audit function issues satisfaction surveys for each audit completed. In the period under review 100% of the responses received indicated that the auditee was satisfied with the audit work undertaken.

Resourcing

Internal Audit is currently working with an establishment of 3 fte with access to a third party provider of Internal Audit Services for specialist audit days as and when required.

The Internal Audit Plan has been delivered with the current establishment. However, we are currently exploring the possibility of recruiting to our vacant part-time Audit Technician post to provide additional support both within the Internal Audit Function but also to other departments.

Our Apprentice is still on hold due to the COVID-19 pandemic and the remote working requirements in place. We are currently engaging with HR to understand what options are available going forwards.

Outcomes of Internal Audit Work

The standards require the Acting Audit and Governance Manager to report to the Audit Committee on significant risk exposures and control issues. Since the last report nine audits have been completed and the final report issued. The Public Sector Internal Audit Standards require the reporting of significant risk exposures and control issues.

Assurance	Colour	Number this Period	Total for 2020/21 Plan	
Substantial		0	5	
Adequate		9	18	
Improvement Required		0	2	
Significant Improvement Required		0	0	
No Opinion Required		0	4	Four consultative engagements in 2020/21

For the purpose of the colour coding approach, both the substantial and adequate opinions are shown in green as both are within acceptable tolerances.

Issues arising from audits completed in the period under review receiving an 'Improvement Required' opinion and requiring reporting to Committee are: -

There were no significant issues identified within audits completed during this period.

Management Response to Internal Audit Findings – There are processes in place to track the action taken regarding findings raised in Internal Audit reports and to seek assurance that appropriate corrective action has been taken. Where appropriate follow up audits have been arranged to revisit significant issues identified after an appropriate time.

The number of high severity issues outstanding was as follows: -

Status	Number	Comments
Overdue more than 3 months	0	
Overdue less than 3 months	0	
Not yet due	1	

Update on previous significant issues reported

The Head of Public Realm attended Audit Committee in April 2021 to provide an update on Fleet Management.

As part of the follow up process we understand that all outstanding actions bar one, relating to the fleet refuelling process; have been implemented. The service are currently identifying the best way to manage the refuelling process which we will continue to monitor and update the committee accordingly.

No significant issues have been identified since our last update in April 2021.

ANNUAL AUDIT REPORT OF INTERNAL AUDIT MANAGER

The Public Sector Internal Audit Standards (PSIAS) state that a professional, independent and objective internal audit service is one of the key elements of good governance, as

recognised throughout the UK public sector. The role of the Head of Internal Audit (Internal Audit Manager), in accordance with the PSIAS, is to provide an opinion based upon, and limited to, the work performed on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes.

As set out in the Public Sector Internal Audit Standards (PSIAS) there is a requirement under PSIAS 2450 that the Chief Audit Executive must provide an annual report to the Audit Committee, timed to support the Annual Governance Statement. This must include:

- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment);
- A summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies); and
- A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

The council is accountable collectively for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

Because of this, the Council continues to adopt a 'Three Lines of Defence' assurance model which is taken from the following sources;

1. Senior Management and Departmental Leadership

Under the first line of defence, operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.

2. Internal Governance

The second line of defence consists of activities covered by several components of internal governance (Statutory Officers, Corporate Oversight Functions, Quality Control, IT Security, Data Protection and other control departments). This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation.

3. Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit Regulations 2015, which states that a relevant body must:

- Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

Internal Audit Approach

The Internal Audit function undertakes a programme of audits each year to provide the Council and its Audit Committee with assurance on the adequacy of its system of internal control, governance and risk management arrangements. The audit programme has been

developed using a risk based approach and comprise of different audit techniques to make it leaner and more supportive of service delivery to meet the Council's needs.

CIPFA released guidance on Head of Internal Audit Annual Opinions in November 2020 due to the impact of COVID-19 for public services to address the risks of limitations of audit scope and notes 'CIPFA recognises that local government bodies are struggling with considerable challenges and are having to make difficult decisions on how best to use their available staff and financial resources to meet critical needs. However, the professional and regulatory expectations on local government bodies to ensure that their internal audit arrangements conform with PSIAS have not changed. In this difficult situation, heads of internal audit will need to consider whether they can still issue the annual opinion or whether there will need to be a limitation of scope.'

The key elements identified by CIPFA within the latest guidance were;

- Planning adequate assurance to support the annual opinion
- Engagement between the leadership team, audit committee and HIA
- Making effective use of internal audit resources
- Early identification of a limitation of scope
- Understanding the consequences of a limitation of scope

Discussions were already taking place at Tendring District Council (TDC) with the Audit Committee and Senior Management as early as March 2020 around the risks that the Internal Audit Team were facing as well as Council services in general and at this stage it had been identified that the Internal Audit Plan for 2020/21 had to be fluid as new risks emerged therefore additional Audit Committee meetings were held to ensure members were kept well informed and also allowed for changes to the internal audit plan to be adopted more effectively and efficiently as new information arose.

Communication between Internal Audit, Leadership and the Audit Committee has been effective and more frequent than any other year due to the additional challenges that the pandemic has brought. All of the key areas identified by CIPFA above had been addressed at the beginning of the financial year and continue to be assessed to date.

Internal Audit has continued to work with services on a consultancy basis to support the implementation of new processes, identify and analyse root cause if necessary and ensure that all relevant employees have the appropriate training to competently carry out their role. This includes advising service areas on their response to the COVID-19 pandemic and ensuring that the best possible service can be provided to the public when there has been a change to working practices or a shift in priorities due to the pandemic.

Independent investigatory work has also been undertaken throughout the year as and when required to support Senior Management when internal control issues arise within service areas.

In 2020/21, only two audits from a total of 29 reviews undertaken received an overall audit opinion of "Improvement Required" where high severity issues were identified. The audits were Princes Theatre and Fleet Management. Improvement actions are in place for those audit areas which are followed up by the Internal Audit function to assess the progress of implementation. All significant issues were reported to the Audit Committee with required improvement actions throughout the year to provide a continuous update on the council's control environment, governance arrangements, material issues identified and improvement actions.

Annual Opinion 2020/21

The Head of Internal Audit annual assurance opinion is based on the following:

- Internal Audit work completed during the course of the year;
- observations from consultancy/ advisory support;
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- a review of assurance from other providers including those from first and second lines of defence, independent regulators and peer reviews;
- the extent of resources available to deliver the internal audit work; and
- the quality and performance of the Internal Audit service and the extent of compliance with the Public Sector Internal Audit Standards

Limitations to the Annual Opinion

Although we were and still are in the middle of a pandemic there have not been any limitations to report on the ability to deliver the Internal Audit Plan and provide an annual opinion on the effectiveness of governance, risk management and internal control. There were changes to the audit plan throughout the year due to emerging risks leading to some audits relating to governance, data protection and business grants being included. The changes to the audit plan were in consultation with the Audit Committee and Management Team, furthermore the additional reviews only added to the overall assurance opinion provided by the Internal Audit Team.

It is also worth adding that the Internal Audit Plan could not be completed without the agreement and support of service managers and their staff as they were able to continue to provide a service to the public, address the changes and challenges from COVID-19 and allow time and resources for auditors to review the work they had been doing through 2020/21.

The Head of Internal Audit Annual Opinion

The overall direction of travel regarding the internal control environment since 2019/20 has improved as all but two audits received a satisfactory level of assurance throughout the 2020/21 financial year. A total of 38 moderate issues and 6 major issues were identified with actions agreed with operational management throughout the year. All major actions due have been reported to the Audit Committee and implemented by the relevant department. All moderate actions are managed through the follow-up process with the service area.

Governance arrangements and internal controls have been evaluated in all audits within the plan, albeit with varying levels of scope. Senior Management continue to review strategic risks on a regular basis within Management Team and the Corporate Risk Register is reviewed bi-annually with any feedback reported to Management Team for consideration.

COVID-19 has had a significant impact on the public and public services; however, departments within the Council have managed to continue to provide services to the public while managing the pressures and challenges from the pandemic. This has allowed for Internal Audit to complete the Internal Audit Plan and support services when required.

There has been procedural and policy changes throughout the year which Internal Audit have had view of and consulted on if needed.

Processing government business grants has taken up a lot of resource within the Corporate Services department throughout the year in order to undertake the necessary criteria checks prior to making payments. Internal Audit have taken assurance from the post assurance work carried out by the Fraud and Risk Team requested by the Department for Business, Energy and Industrial Strategy which evidenced only two minor errors in the sample of transactions tested. The Fraud Officer has also carried out many investigations pre and post payment of business grant funds to prevent the Council being exposed to repayment of funds to central government through unnecessary error and fraud.

Internal Audit have also undertaken their own review of business rates which included a review of business grants and the checks undertaken by Revenue Officers prior to payment with no significant issues being identified.

The opinion of the Internal Audit Manager is drawn from all of the information reported above, external reviews carried out throughout the year from other assurance providers and through the ongoing work in supporting Senior Management and services in delivering the Councils objectives and vision.

The Internal Audit function updated the annual Quality Assurance and Improvement Programme (QAIP) which is a self-assessment questionnaire against the Public Sector Internal Audit Standards. The (QAIP) was completed and presented to and agreed by the Audit Committee in January 2021.

The Internal Audit Manager is satisfied that sufficient work was completed in 2020/21 to draw a reasonable conclusion on the adequacy and effectiveness of the Council's activities. The internal control environment continues to remain stable with no significant changes from 2019/20 other than those reported to the Audit Committee throughout the year as part of the periodic reporting arrangements. An open dialogue with Senior Management on risk remains in place and a generally sound system of internal control has been assessed across the majority of the Councils operational areas. Therefore, an overall unqualified opinion of 'Adequate Assurance' can be provided.

The above report will be included within the Councils Annual Governance Statement (AGS) as part of its statutory responsibilities. Further work will be undertaken at a later date on lessons learnt from COVID-19 in line with AGS priorities.

INTERNAL AUDIT PLAN PROGRESS (2021/22)

Two audits from the 2020/21 Internal Audit Plan have been completed both receiving an overall opinion of Substantial Assurance with no significant issues identified. A further four audits are in fieldwork phase and a further two audits have been allocated.

The Internal Audit Team have been monitoring outstanding actions and working hard to ensure that services work with us to confirm that agreed actions are completed in a timely manner.

Work has begun in areas such as Bereavement Services, Performance Management, Building Control and Pre and Post Employment Checks.

Some resource is currently being used to undertake independent fact finding exercises part of potential / emerging governance issues. The consultative days allocated within the Internal Audit Plan is being used to support this work.

Appendix B – 2021/22 Internal Audit Plan progress report; provides an update on the status of each audit to date.

There are no significant issues or particular areas of concern to report at this time.

BACKGROUND PAPERS FOR THE DECISION

Audit Reports

APPENDICES

Appendix A – 2020/21 Internal Audit Plan Progress Report
Appendix B – 2021/22 Internal Audit Plan Progress Report