

AUDIT COMMITTEE

30 JUNE 2022

REPORT OF INTERNAL AUDIT MANAGER

A.1 REPORT ON INTERNAL AUDIT – MARCH 2022 - MAY 2022 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 March 2022 – May 2022 and the Internal Audit Managers Annual Report for 2021/22 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 2021/22*

- A satisfactory level of work has been carried out on the 2021/22 Internal Audit Plan in order for the Internal Audit Manager to provide an opinion in the Annual Head of Internal Audit Report.
- Two audits from the Internal Audit Plan remain outstanding. All other audits within the 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 Public Sector Internal Audit Standards and CIPFA Application Notes (Latest release November 2020)
- Although set out in more detail later on in this report, there are risks to being able to provide an unqualified opinion in 2022/23 given some wider governance issues identified and the difficulties reaching an overall opinion for 2021/22. This will form a key element of the AGS that is currently being prepared along with a number of actions to ensure that adequate progress can be made to avoid a potentially unfavourable opinion in future.

3) *Internal Audit Plan Progress 2022/23*

- Six audits within the 2022/23 Internal Audit Plan are currently in fieldwork.

RECOMMENDATION(S)

Members are requested to note the reports and consider whether they have been informed on the following;

- The opinion statement within this report
- The completion of audit work against the plan
- The scope and opportunity of audit to complete the audit work
- Any audit findings provided
- The overall performance and customer satisfaction on audit delivery

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

The Council has a statutory responsibility to maintain adequate and effective internal audit.

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.

OTHER IMPLICATIONS

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.

Internal Audit activity assists the Council in maintaining a control environment that mitigates the opportunity for crime.

During the course of internal audit work issues regarding equality and diversity, and health inequalities may be identified and included in internal audit reports.

There is no specific effect on any particular ward.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

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.

INTERNAL AUDIT PLAN PROGRESS 2021/22

Two audits within the 2021/22 Internal Audit Plan remain outstanding (Depot Operations and Strategic Housing). All other audits within the plan are complete.

A total number of nine audits were completed during April 2022 to June 2022. One report in this period has received an overall opinion of 'Improvement Required' (Housing Repairs and Maintenance) with the other eight 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 regarding Procurement, Career Track and Careline. The team will also allocate some time throughout the year liaising with departments and advising on an ad-hoc basis.

The audit plan is fluid which ensures that we work with services to reaffirm audit priorities continuously throughout the year. Working within the Covid-19 environment demonstrated that we were able to adapt and amend the audit plan when needed to move with changing priorities and emerging risks.

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. We have recently advertised internally for the vacant Audit Technician post, unfortunately there were no applicants. We are expecting to open the advert externally soon.

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		8	15	

Improvement Required		1	2	
Significant Improvement Required		0	0	
No Opinion Required		0	3	Three consultative engagements in 2021/22

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: -

Housing Repairs and Maintenance

Issues;

1. Lack of Variation Tracking

When a job is not as straight forward as expected a variation order is raised by the contractor which will then increase the expected cost of the job with the contract. The contractor has a contracted self-authorization limit of £50 (but must send in photo beforehand) and anything above this must be authorised by the council. This limit has recently been raised by the council. While these variations are recorded under Job History step, and looked at during invoice payment stage, there is no independent method of identifying the amount or total value of these works, or how many comply with contractual requirements.

Risk;

Without an overview or method of identifying variations orders, there is a risk of paying for works or parts that are not required which have an adverse financial impact.

Agreed Action;

Explore options within Housing repairs software review to include a reportable process for separately adding, identifying and tracking order variations.

This additional step should be linked to authorisation levels for each user, to ensure the value is appropriate for their role and experience.

2. Tenancy Information

Every housing unit should have an identified tenant, or clearly marked as void if between tenants.

Updated records are necessary to ensure the customer service team know they are dealing with the tenant at the address and enable any security checks needed as well as complying with any data requirements.

There is currently no regular updating of tenant details within the maintenance system if they move in or out. Similarly, it is understood that initially tenant details needed to be

completed manually during initial rollout of software. As a consequence, there is limited confidence that all addresses have a tenant listed and there may be a few rogue overlooked blank entries in the database, where no visits have been needed.

Risk;

Apart from reputational damage due to lack of data integrity and apparent professionalism, there is also the risk of allowing unauthorised access or works by a non-tenants.

Agreed Action;

Liaise with IT to identify a data linkage method where existing records held on tenancy system can be exported to Housing Repairs software to ensure the records are current.

3. Lack of Clear Record Keeping

In a case brought to the Housing Ombudsman against the council, one major criticism was absence of clear and comprehensive record keeping. This is also crucial in any legal defence against growing Housing Disrepair Claims.

Although some measures have been brought in, it is considered there is still room for some improvement. Further details and examples are recorded within the operational audit report.

Risk;

If information is missing or dispersed, there is a risk of overlooking key facts which may impact works in place or potential ones, leading to adverse reputational damage or financial impact (especially if a repeat in nature of the case previously sent to the Ombudsman or subject to growing instances of costly Housing Disrepair Claims)

Agreed Action;

New procedures and processes to be implemented so that information is captured centrally.

This will be examined as part of Housing Repairs software review to identify what options are available and any subsequent officer training carried out.

4. Discrepancies Between Oneserve System and Invoices

Work is raised on OneServe with the job description and cost. Once the job is complete, an invoice is raised and submitted to the council for payment. This invoice is matched against work raised and paid accordingly.

In all cases, OneServe (council housing repair software) figures should match invoice to ensure only the work raised is paid for.

There are examples identified through testing which showed payment was apparently in excess of raised work.

Risk;

If the correct figures are not matched, this raises the risk that payments forecast may be different from invoice and overpay as a result. The variations are not kept with the main record, adding extra checking time to locate and cross reference any subsequent authorisations.

Agreed Action;

Initially, a reminder will be issued to officers reminding them of the need to ensure the job value matches the received invoice.

There will also be investigation into software capability to see if a check function can be incorporated

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	1	
Overdue less than 3 months	1	
Not yet due	1	

Update on previous significant issues reported

The Head of Customer and Commercial Services attended the April 2022 Audit Committee to provide an update on activities within the Careline service. We continue to monitor the situation with the service via the Internal Audit follow-up process.

There are no other significant issues to highlight other than those reported above for this period.

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 was developed using a risk based approach that incorporates a number of independent reviews of the Councils activities to be able to give an overall opinion on the areas mentioned above.

CIPFA released guidance on Head of Internal Audit Annual Opinions in November 2020 due to the impact of COVID-19. There has been no further guidance from CIPFA since then. The Internal Audit Manager continues to refer to this guidance while forming an opinion; however, there has been minimal impact on the delivery of the 2021/22 Internal Audit Plan due to COVID-19.

The impact of COVID-19 is now a section of every audit undertaken and will continue to be going forwards. The Internal Audit Team will record changes to procedures and

effectiveness and efficiency issues due to COVID-19 and report any significant issues to the Councils Management Team and Audit Committee as required.

Communication between Internal Audit, Leadership and the Audit Committee has been effective and remain consistent which provides reasonable assurance around the effectiveness and transparency of reporting arrangements.

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 transformation projects, procurement, ad-hoc investigations and any further advice on procedures due to the impact of COVID-19.

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 2021/22, only two audits from a total of 27 reviews undertaken received an overall audit opinion of "Improvement Required" where high severity issues were identified. The audits were Careline and Housing Repairs and Maintenance. It has been difficult to reach an overall unqualified opinion this year as there has been other activity that must be taken into account when forming an opinion. Examples include the fact that two statutory 'Section 5' reports have been issued in order to correct decisions that have contravened law / constitutional requirements. As well as there being early indications from the outturn process suggesting that there is significant unauthorised overspends of the Councils budgets. With all of the above to be considered, the balancing factors are that all significant issues identified are addressed instantly which includes setting up working groups when needed and that overall the Councils internal control environment is sound, it just needs to be followed.

Improvement actions are in place for the mentioned audit areas which are followed up by the Internal Audit function to assess the progress of implementation. All significant issues are reported to the Audit Committee with required improvement actions throughout the year to provide a continuous update on the councils control environment, governance arrangements and material issues identified.

Annual Opinion 2021/22

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

There are no 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 and changes to service provision which meant some audits were merged once we received further information and some elements were amended within individual audits. The changes to the audit plan were in consultation with the Audit Committee and Management Team, furthermore the amendments to the plan only added to the overall assurance opinion provided by the Internal Audit Team.

The Head of Internal Audit Annual Opinion

The overall direction of travel regarding the internal control environment since 2020/21 has remained the same as all but two audits received a satisfactory level of assurance throughout the 2021/22 financial year. We are unable to state that the control environment has improved overall as the majority of audits received an 'Adequate Assurance' opinion meaning that although there were no significant issues identified within those audits there was still some work to be done to develop the control environment at an operational level. A total of 39 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 all moderate actions are managed through the audit 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.

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 April 2022.

The Internal Audit Manager is satisfied that sufficient work was completed in 2021/22 to draw a reasonable conclusion on the adequacy and effectiveness of the Council's activities. The internal control environment continues to remain stable with some significant changes in specific service areas which have been 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.

There are risks to being able to provide an unqualified opinion in 2022/23 given the wider governance issues identified and the difficulties reaching an overall opinion for 2021/22 highlighted earlier. This will form a key element of the AGS that is currently being prepared to ensure that adequate progress can be made to resolve historical issues and avoid a potentially unfavourable opinion in future. As part of an immediate and direct response, the Chief Executive has established a regular cycle of Budget, Performance and Delivery

Review meetings with Management Team and other Senior Officers across the Council. It is recommended that these meetings cover the following key issues:

- High level review of the in-year budget position for each Directorate / Department, which needs to aim to draw out any potential financial issues ahead of the associated impact on the budget e.g. potential overspends, underspends and / or other financial issues / pressures;
- following on from the point above, to promote and oversee any associated decision making / governance processes;
- to identify financial pressures that may impact on the Council's long term financial plan;
- to promote connections / linkages with the recently implemented Corporate Investment Plan;
- to review the in-year performance against the Council's key aims and objectives and other key delivery targets;
- to identify and oversee any other key governance issues; and
- set against all of the above, keep under on-going review the level of resources / capacity to meet the various demands on the Council's departments and services.

INTERNAL AUDIT PLAN PROGRESS (2022/23)

We are yet to finalise an audit within the 2022/23 Internal Audit Plan. A total of 6 audits are in fieldwork phase with two audits from the 2021/22 plan close to being finalised.

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 Housing Allocations, Licensing, Section 106 Agreements, Beach Huts, Land Charges and Pre and Parking Services.

Audit time has also been allocated to undertake independent investigations.

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 – 2021/22 Internal Audit Plan Progress Report
Appendix B – 2022/23 Internal Audit Plan Progress Report