

Committee: Governance, Audit and Performance Committee

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Title: Internal Audit Annual Report 2020/21

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Summary

1. This report summarises the work that Internal Audit has undertaken during the financial year 2020/21 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment, risk management and governance arrangements across the Council.

Recommendations

2. GAP Committee are requested to note the content of this report

Financial Implications

3. None

Background Papers

4. None.

Impact

- 5.

| | |
|---------------------------------|--|
| Communication/Consultation | This report was discussed and noted by CMT in June 2021. |
| Community Safety | None |
| Equalities | None |
| Health and Safety | None |
| Human Rights/Legal Implications | None |
| Sustainability | None |
| Ward-specific impacts | None |
| Workforce/Workplace | None |

Situation

6. The provision of a continuous internal audit service assists the Council in providing assurance on the control environment that supports the delivery of the Council's strategy.
7. The attached report summarises the work that Internal Audit has undertaken during the financial year 2020/21 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment, risk management and governance arrangements across the Council.
8. The Public Sector Internal Audit Standards (PSIAS) require that the Audit Manager provides an annual audit opinion and report that can be used by the organisation to inform its governance statement in respect of the adequacy and effectiveness of the organisation's framework of internal control, risk management and governance.

Risk Analysis

9.

| Risk | Likelihood | Impact | Mitigating actions |
|---|------------|--------|--|
| Inadequate audit coverage may lead to failure to provide an annual opinion of the Council's governance, risk and control arrangements; reputational damage and failure to comply with PSIAS | 2 | 2 | Monitoring of plan delivery and reporting to CMT and GAP, contingency built into plan for additional days if required; Quality Assurance and Improvement Programme |

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.

Internal Audit Annual Report 2020-21

1. Introduction

1.1. Purpose of this report

1.1.1. This report summarises the work that Internal Audit has undertaken during the financial year 2020/21 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment, risk management and governance arrangements across the Council.

1.2. The Role of Internal Audit

1.2.1. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The purpose of Uttlesford DC's Internal Audit section is to provide independent, objective assurance and consulting services to the Council (via the GAP Committee, Chief Executive, Section 151 Officer, External Audit and senior managers), relating to these arrangements, which are designed to add value and improve the Council's operations. The Council's response to Internal Audit activity should lead to the strengthening of the control environment.

1.2.2. Each year, we seek to adapt and enhance our audit approach in order to take in to account the Council's risk profile and changes in the system of internal control. This ensures that our work remains focused on the areas of high risk and seeks to avoid duplication of effort, where there are other sources of assurance in operation, for example, External Audit.

1.2.3. Internal Audit remains free from all conditions that threaten the ability of the Council's Internal Auditors to carry out their responsibilities in an unbiased manner, including matter of audit selection, scope, procedures, frequency, timing and report content. If the Audit Manager determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties. This has not arisen for 2020/21. The Council's Internal Auditors also maintain an unbiased mental attitude that allows them to perform engagements objectively. Internal Auditors have had no direct operational responsibility or authority over any of the activities audited.

1.2.4. Our Internal Audit Charter was presented to Senior Management and GAP Committee in February 2021 and will continue to be updated and appended to the annual Internal Audit Plan each year.

1.3. Overview of the Internal Audit Approach

- 1.3.1. The Public Sector Internal Audit Standards (PSIAS) require that the Audit Manager provides an annual audit opinion and a report that can be used by the organisation to inform its governance statement in respect of the overall adequacy and effectiveness of the organisation's framework of governance, risk management and internal control.
- 1.3.2. This is achieved through a risk-based plan of work, agreed with management and approved by the GAP Committee, which should provide a reasonable level of assurance, subject to the inherent limitations set out in Appendix A. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation. Internal audit work was performed in accordance with the Council's Internal Audit methodology which is in conformance with the PSIAS.

1.4. Overview of work done in the year

- 1.4.1. In response to the outbreak of the Covid-19 Pandemic in March 2020, Internal Audit focussed its priorities on assisting management. To this end, Internal Auditors were redeployed to the Revenues and Benefits Service to provide resources to assist in checking Covid 19 Business Grant applications and Benefits claims, which ended on 31st August 2020.
- 1.4.2. A new Audit Manager joined the Internal Audit Team in November 2020. The role is being shared between Chelmsford City Council and Uttlesford District Council, with the Audit Manager providing c.18 hours per week to UDC. The arrangement will be reviewed again in March 2022.
- 1.4.3. Current resourcing is therefore as follows: 2.1 FTE permanent staff – 0.5 FTE (Audit Manager); 1.0 FTE (Auditor) and 0.6 FTE (Auditor)
- 1.4.4. The revised audit plan for 1st September onwards was approved by GAP Committee in September 2020, then further changes were subsequently made to the plan from 1st November to focus coverage on the higher risks to the Council, and to widen the scope in some of the key areas. The final number of projects delivered for 2020/21 was 13 (10 reviews and 3 follow ups) after taking into account reviews that were cancelled or deferred to 2021/22 (see Section 5).

2. Internal Audit Opinion

- 2.1. In giving an opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the organisation is reasonable assurance there are no major weaknesses in the Council's risk management, control and governance processes.
- 2.2. In forming the opinion for 2020/21, the Audit Manager has had to take into account various factors, such as the impact of resourcing changes during the year on full plan delivery, the impact of Covid 19 and limitations of historical knowledge prior to November 2020.
- 2.3. However, on balance, whilst these factors must be taken into account when placing reliance on the opinion below, based solely on the internal audit work undertaken for the year ended 31st March 2021, **it is the Audit Manager's opinion that overall, the Council's systems for control, risk and governance are generally adequate with some improvements required. Medium risk rated weaknesses identified in individual assignments are not significant in aggregate to the system of internal control, high risk rated weaknesses identified in individual assignments are isolated to specific system or processes, and none of the individual assignment reports have an overall classification of critical risk.**

3. Other Sources of Assurance

3.1. Risk Management Framework

- 3.1.1. The Council utilises risk management as part of a package of performance management related measures to enable it to deliver its corporate priorities. By identifying and assessing risks and making informed decisions on the extent to which these risks need to be mitigated, the Council can ensure it is effectively tackling threats and maximising opportunities. The key elements underpinning this are:
 - Ensuring there is an awareness and consideration of the level of risk on a service level and project delivery
 - The Council's risk management processes, which are based on the level of risk that exists, form part of effective governance arrangements which add value and give the opportunity to learn from managed risk taking
 - A culture which allows the ability to make the most of potential opportunities, whilst recognising that these may have inherent, positive or negative, risks.
- 3.1.2. The Council's Corporate Risk Register comprises the most significant risks for the Council in delivering its corporate objectives and services as set out in the Corporate Plan and Corporate Plan Delivery Plan and/or the risks that have

the potential to disrupt or stop altogether the Council's work. The Council's identified risks are managed within the corporate performance management system, Pentana. In alignment with UDC's Risk Management Policy, the 2020/21 Corporate Risk Register was refreshed by the Corporate Management Team, and risk wording redrafted in light of the Covid 19 pandemic. Whilst this review did not involve the introduction of any new corporate risks, each risk was also reviewed by considering if previously identified current controls and further actions still remained the same.

3.1.3. The Council's risk information and corporate/service plans are considered as part of Internal Audit work, in order to ensure that the Internal Audit programme is focussed on the Council's highest risks/key priorities.

3.2. Internal Audit View on the Risk of Fraud

3.2.1. The Council's Counter Fraud and Corruption Strategy and Policies were refreshed in 2019 by the previous Audit Manager and sets out the Council's Fraud Response Plan, Bribery Act Policy, Prevention of Money Laundering Procedures, Whistleblowing Policy, Gifts and Hospitality Guidance, and policies for specific fraud types.

3.2.2. In addition, in line with the Internal Audit Charter, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls and emerging risks.

3.2.3. The Council also took part in the mandatory 2020/21 Cabinet Office data matching NFI Exercise to prevent and detect fraud. In addition, in 2020/21, to assess and identify the level of fraud and error in Covid 19 Grant schemes, the Council have also utilised Spotlight & NFI tools in line with Government guidance for pre and post payment assurance. The Council's arrangements for Covid 19 Grants and Loans will be subject to Internal Audit review in 2021.

3.2.4. The Audit Manager will also undertake a review of the Council's Counter Fraud Strategy in 2021 and the framework for managing the risk of fraud to ensure that the Council aligns effectively and efficiently with the Fighting Fraud and Corruption Locally Framework 2020.

4. Summary of Findings

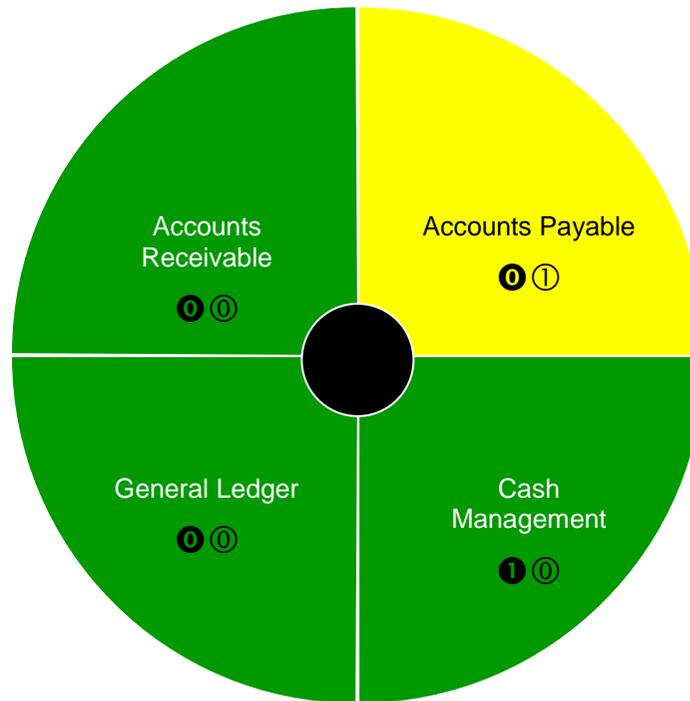
4.1. Key themes identified in 2020/21

The Internal Audit Opinion considers the number of limited assurance reports/high priority findings and their overall impact on the control environment. A summary of the key issues arising from these reports is presented below:

| Report Title | Assurance Rating | High | Medium | Low | Key Issues Arising |
|--|-----------------------|------|--------|-----|--|
| Grants to Community Organisations | n/a Management Letter | 2 | 4 | - | Two high priority findings were identified relating to Grant Policy and Terms and Conditions of Funding. |
| S106 Obligations | Limited | 2 | 1 | - | Two high priority findings were identified relating to the Planning Obligation Policy and Reporting. |
| Information Governance | Moderate | 1 | 5 | - | One high priority finding was identified relating to the corporate strategy for Information Governance and management of Information Risk. |
| Domestic Waste and Recycling | Moderate | 1 | 7 | - | One high priority finding was identified relating to GDPR. |
| Key Financial Systems (Accounts Payable) | Moderate | 1 | - | 1 | One high priority finding was identified relating to Purchase/Fuel Cards. |

4.2. Key Financial Systems (KFS)

- 4.2.1. The KFS programme is a key indicator of the overall strength of the underlying control environment. The key financial systems reviewed during 2020/21 were: Accounts Payable, Accounts Receivable, Cash Management and General Ledger. The focus was on reviewing the adequacy of the design of controls in place to reduce risk, although some operational effectiveness was also tested.
- 4.2.2. The 2020/21 overall opinion rating for the key financial systems was 'moderate' assurance i.e., the key controls in the Council's financial systems reviewed continue to operate effectively based on the sample testing performed. One high priority finding was identified relating to Purchase/Fuel Cards. The wheel below summarises the number and priority of findings.



4.3. Management’s Response to Implementing Audit Recommendations

- 4.3.1. A key measure of success and a strong internal control environment is timely implementation of recommendations. All planned audit work undertaken is subject to a formal follow up to ensure that all agreed actions have been implemented.
- 4.3.2. Performance relating to the implementation of recommendations during 2020/21 is tabled below. In summary, there was a good rate of implementation, with no critical/high priority recommendations outstanding on follow up.

| Audit Title | Outcome of Follow Up |
|----------------------|---|
| Equality & Diversity | The scope of this audit focussed on implementation of the recommendations made in the 2019/20 review and on the controls in place to mitigate Covid-19 risks. Our audit work has confirmed that of the nine recommendations made in the 2019/20 review, eight are considered to have been implemented and one is considered to have been partially implemented, with a recommendation made to address further action required. |
| Health & Safety | The scope of this audit focussed on implementation of the recommendations made in the 2019/20 review and on the controls in place to mitigate Covid-19 risks. The Covid-19 emergency however had considerable impact on the resource available within the service and its ability to implement previous recommendations. Our audit work has confirmed that of the five recommendations previously made: two are considered to have been implemented; one was partially implemented with a recommendation made to address further action required; one has been superseded with a recommendation made to address further action required; and one has not been implemented due to Covid-19 priorities and the recommendation has been re-iterated. |
| Licensing | The scope of this audit focused on the follow-up to the original 2019/20 audit review and assessment of potential Covid-19 related risks which may have emerged during 2020. In the previous audit report, seven recommendations (three high, four medium priority) were made and accepted by management. Based on the evidence presented, our follow up confirmed that: six recommendations have been fully implemented and one recommendation (high priority) has not yet been implemented. The outstanding high priority recommendation relates to GDPR and implementation will be followed up by Internal Audit. |

4.4. Summary of remaining reviews

| Report | Key Issues |
|--|--|
| Housing Allocations | No high priority findings were identified during the review. Six medium priority findings related to operational processes. |
| Insurance | No high priority findings were identified during the review. Two medium priority findings related to Corporate Policy and Management Information. |
| Emerging Issues from Covid-19 Response | The audit approach involved a high-level review of the Council's Coronavirus Response Lessons Learned exercise in 2020 to determine if any further actions may need to be considered by the Council to assess its robustness in managing the ongoing impact of Covid-19 on the Council's services. Due to the limited scope of this review, it is unrepresentative to issue an internal audit opinion, however, based on our review, the identified risks are being managed. |
| Housing Benefits | The audit approach involved a high-level review of key risks relating to Housing Benefits, specifically where the service may have been impacted by Covid-19, and the findings are based on responses provided by the Benefits Manager in the Key Control Questionnaire. Due to the limited scope, it is unrepresentative to issue an internal audit opinion, however, based on the discussions with management, the identified risks are being managed and no recommendations were required at this stage. |
| Community Response Hub | The audit approach involved a high-level review of key risks relating to the Response Hub set up in March 2020 with collaborative arrangements between the Council, the Community Volunteer Service Uttlesford (CVSU) and the Voluntary Bureau (VB) to assist local residents during the pandemic. The Council's participation is limited to gathering information that the voluntary sector requires to help those in need of support with shopping for basic supplies, access to prescription and medication, and advice. Due to the limited scope, it is unrepresentative to issue an internal audit opinion, however, based on the discussions with management, the identified risks are being managed and no recommendations were required at this stage. |

5. Reconciliation between Original Plan received by GAP (September 2020) to current status

| Original Plan received by GAP | Current Status |
|--|---|
| Health & Safety | Completed |
| Benefits | Completed |
| Insurance | Completed |
| Licensing | Completed |
| Equality & Diversity | Completed |
| Domestic Waste & Recycling | Completed |
| Housing Allocations | Completed |
| Information Governance | Completed |
| Section 106 Obligations | Completed |
| Communities Hub | Completed |
| COVID-19 Project | Completed |
| Finance - Income, Fees & Charges | Income – Completed (KFS 2020/21) |
| Finance - Main Accounting System | Completed (KFS 2020/21) |
| Uttlesford Norse | In progress. Final Report due July 2021 |
| Human Resources | 2021/22 Plan |
| Homelessness, Options & Voids | 2021/22 Plan |
| Business Continuity & Emergency Planning | 2021/22 Plan |
| Commercial Enterprises & Investments | 2021/22 Plan |
| Contract Management | 2021/22 Plan |
| Finance - Budgets | 2021/22 Plan |
| Procurement | 2021/22 Plan |
| Democratic Services | 2021/22 Plan |
| Leisure PFI | 2021/22 Plan |
| Waste - Income Generating Services | 2021/22 Plan |
| Trade Waste | 2021/22 Plan |

| Original Plan received by GAP | Current Status |
|---------------------------------|--|
| Housing - Landlord Services | 2021/22 Plan |
| ICT | 2021/22 Plan |
| Car Parking Partnership (NEPP) | 2021/22 Plan |
| Revenues - Business Rates | 2021/22 KFS Scope |
| Revenues - Rents | 2021/22 KFS Scope |
| Revenues - Council Tax | 2021/22 KFS Scope |
| Revenues - Recovery | 2021/22 KFS Scope |
| EU Exit | Associated risks will be considered within scopes of applicable reviews |
| Performance Management | Will be considered within scopes of applicable reviews |
| Risk Management | Will be considered within scopes of applicable reviews |
| Museum | Will be reassessed once reopen |
| Counter Fraud | Will be reviewed as part of a self-assessment against CIPFA's Managing the Risk of Fraud |
| Environmental Health Commercial | Will be considered for inclusion as a result of other deferrals/cancellations or for 2022 plan |
| Environmental Health Protection | Will be considered for inclusion as a result of other deferrals/cancellations or for 2022 plan |
| Housing - Supporting People | Will be considered for inclusion as a result of other deferrals/cancellations or for 2022 plan |
| Building Control | Will be considered for inclusion as a result of other deferrals/cancellations or for 2022 plan |
| Development Management | Will be considered for inclusion as a result of other deferrals/cancellations or for 2022 plan |
| Communication | Will be considered for inclusion as a result of other deferrals/cancellations or for 2022 plan |
| Consultation & Website | Will be considered for inclusion as a result of other deferrals/cancellations or for 2022 plan |
| Printing & Mailroom | Will be considered for inclusion as a result of other deferrals/cancellations or for 2022 plan |

6. Review of the Effectiveness of Internal Audit

In order to ensure that Internal Audit continues to meet the requirements of the Public Sector Internal Audit Standards (PSIAS), the Audit Manager will undertake a full self-assessment in 2021, in readiness for the next formal external quality assessment which is due in 2022.

Quality management protocols are in place, with Audit Manager sign off and oversight at pertinent stages to ensure a consistent quality approach. In addition, the Chartered Institute of Internal Auditors (IIA) sets out mandatory Core Principles, which, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective and achieve its mission, all of the following Principles must be present and operating effectively:

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence
- Aligns with the strategies, objectives and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive and future-focused
- Promotes organisational improvement

Internal Audit's QAIP (Quality Assurance and Improvement Programme) from 2021/22 onwards will cover all these aspects of the Internal Audit activity, including a suite of KPI's for the audit team to be measured for delivery of the audit plan. The programme will include an evaluation of Internal Audit's conformance with the above Principles, PSIAS and an evaluation of whether Internal Auditors apply the IIA's Code of Ethics. The programme will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

In addition, the Audit Manager will communicate to senior management and GAP on Internal Audit's (QAIP), including results of the internal self-assessment. Any instances of nonconformance with PSIAS will be included in the Internal Audit Annual Report. If there is significant non-conformance, this will be included in the Council's Annual Governance Statement.

Limitations and Responsibilities

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. Internal Audit shall endeavour to plan its work so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, Internal Audit shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, the examinations of Internal Audit should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless Internal Audit is requested to carry out a special investigation for such activities in a particular area.

Limitations inherent to the internal auditor's work

Internal Audit work has been performed subject to the limitations outlined below:

- **Opinion**

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence, management and the GAP Committee should be aware that the opinion may have differed if the programme of work or scope for individual reviews was extended or other relevant matters were brought to Internal Audit's attention.

- **Internal control**

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

- **Future periods**

Historic evaluation of effectiveness may not be relevant to future periods due to the risk that the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or the degree of compliance with policies and procedures may deteriorate.