

Report of the Chief Audit and Control Officer

INTERNAL AUDIT REVIEW 2020/211. Purpose of report

To inform the Committee of the work of Internal Audit during 2020/21 and to provide an annual internal audit assurance opinion that can be used by the Council to inform its Annual Governance Statement.

2. Detail

Under the Constitution and as part of the overall governance arrangements, this Committee is responsible for monitoring the performance of Internal Audit.

In accordance with the Public Sector Internal Audit Standards, developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA), the Chief Audit and Control Officer must deliver an annual internal audit opinion and report that can be used by the Council to inform its Annual Governance Statement. The Internal Audit Annual Review Report for 2020/21 is included in the appendix.

The Council has to conduct, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of senior management who have responsibility for the development and maintenance of the governance environment, the Internal Audit Review Report and comments from external auditors/other inspectorates.

The system of internal control has been reviewed. On the basis of Internal Audit work completed, it is the opinion of the Chief Audit and Control Officer that the current internal control environment is satisfactory such as to maintain the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. Further context relating to this assurance opinion, including details of any caveats and limitations in scope, are provided in the appendix.

Overall, 89% of the planned audits were complete or awaiting finalisation at the year-end, which was slightly below the 90% target. All outstanding and deferred audits will now be completed as early as practicable in 2021/22.

Recommendation

The Committee is asked to NOTE the Chief Audit and Control Officer's annual assurance opinion and the work of Internal Audit in 2020/21.

Background papers

Nil

APPENDIX**INTERNAL AUDIT ANNUAL REVIEW REPORT 2020/21****1. INTRODUCTION**

This report provides a summary of Internal Audit activities for 2020/21.

The Accounts and Audit Regulations 2015 require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices. The United Kingdom Public Sector Internal Audit Standards (the 'Standards') and the CIPFA Local Government Application Note constitute proper practices so as to satisfy the requirements for larger relevant bodies as set out in the Regulations.

The Standards requires the Chief Audit and Control Officer, as the Council's designated 'chief audit executive', to deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement. The opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The report must incorporate:

- an opinion on the overall adequacy and effectiveness of the Council'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 providers); and
- a statement on conformance with the Standards and the results of the quality assurance and improvement programme.

The annual opinion should also be guided by the CIPFA/SOLACE Delivering Good Governance in Local Government Framework.

2. BACKGROUND TO THE OPINION

The Council has to conduct, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of senior management who have responsibility for the development and maintenance of the governance environment, this Internal Audit Review Report and from comments made by the external auditors and other review agencies and inspectorates.

A review of the effectiveness of the system of internal audit helps to ensure that the opinion in this report may be relied upon as a key source of evidence in the Annual Governance Statement. The latest review found Internal Audit to be sufficiently compliant with the requirements of the Standards to ensure that the opinion given can be relied upon for assurance purposes.

There are no causes of concern with regard to the independence and objectivity of Internal Audit. Whilst reporting on Internal Audit matters directly to the Deputy Chief Executive (fulfilling the duties of Section 151 of the Local Government Act 1972), the Chief Audit and Control Officer also has:

- free and unrestricted access to the General Management Team.
- free and unrestricted access to the Governance, Audit and Standards Committee (the 'Committee') and attends all of its meetings
- the right to meet with the Chair of the Committee and/or other relevant Members to discuss any matters or concerns that have arisen from Internal Audit work.

3. AUDIT OPINION ON THE OVERALL ADEQUACY AND EFFECTIVENESS OF THE COUNCIL'S INTERNAL CONTROL ENVIRONMENT

The system of internal control has been reviewed.

On the basis of Internal Audit work completed, it is my opinion, as the Chief Audit and Control Officer, that the current internal control environment is satisfactory such as to maintain the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

The framework for governance is as set out in the Annual Governance Statement and, in my view, is an accurate description of the governance arrangements. In relation to risk management, I have oversight of the risk management process and conclude that a range of significant risks for the Council have been identified and are being managed.

In terms of the audit assignments completed, services were found to be operating with an appropriate level of internal controls. Where weaknesses and exceptions were highlighted by Internal Audit work, any matters were discussed with management and recommendations made accordingly. Where improvement actions were agreed to address these matters, progress is being made for their implementation. Where this should not be the case, any outstanding significant recommendation is reported to this Committee as part of the regular progress reports.

The opinion has been arrived at with due regards to the following:

- The level of coverage provided by Internal Audit was considered to be adequate to enable this opinion to be delivered.
- **The service has been impacted by the Covid-19 pandemic, particularly with the urgency of diverting Internal Audit resources towards supporting other services early in the crisis. This included vital work associated with the governance, quality assessment and fraud checking of grants paid under the emergency business grants and local discretionary grants schemes.**

- Work has been planned and performed so as to obtain sufficient information and explanation considered necessary to provide evidence to give reasonable assurance that the Council's control environment is operating effectively.
- The independence and objectivity of Internal Audit has not been impaired in fact or appearance.
- **The scope of Internal Audit work has not been restricted in any way. A number of audits have taken place during the pandemic lockdown, which required the audit process to be adapted accordingly to enable it to be completed remotely. It is pleasing to report that Internal Audit considers that it was not overly restricted in terms of its access to systems, records and people. As a result, the audit conclusions and the strength of the individual audit opinions provided were not qualified. The support of officers was most welcome in successfully concluding the audit testing.**
- Insight gained from interaction with senior management and this Committee.
- No adverse implications for the Annual Governance Statement have been identified from work undertaken by Internal Audit.
- The Internal Audit Plan 2020/21, as approved by this Committee on 18 May 2020, and subsequently revised on 30 November 2020, was informed by the Chief Audit and Control Officer's own assessment of risk and materiality, following consultation with senior management, to ensure it was aligned to the Council's corporate objectives and key strategic risks.
- The following table summarises the outcomes of audit assignments completed in 2020/21, including those audits completed from the previous year's plan that were finalised in the year:

Audit Assignment	Status/ Completion	Assurance Opinion	Critical Risk Action	Significant Risk Action	Merits Attention Action
Council Tax #	Final Report 100%	Substantial	-	-	2
Independent Living #	Final Report 100%	Reasonable	-	-	5
Key Reconciliations #	Final Report 100%	Reasonable	-	-	1
Cash Receipting (Payment Kiosk) #	Final Report 100%	LIMITED	-	2	5
Discretionary Business Grants	Final Report 100%	Substantial	-	-	-
Payroll/Officers Allowances	Final Report 100%	Substantial	-	-	1
Information Governance #	Final Report 100%	Substantial	-	-	1
Whistleblowing & Complaints #	Final Report 100%	Reasonable	-	-	2
Enforcement	Final Report 100%	Reasonable	-	-	5
Financial Resilience #	Final Report 100%	Reasonable	-	-	4
Local Authority Trading Company #	Final Report 100%	Reasonable	-	1	2
Governance - Covid-19 Grants	Final Report 100%	Substantial	-	-	1
Council Tax Hardship Scheme	Final Report 100%	Substantial	-	-	-

Audit Assignment	Status/ Completion	Assurance Opinion	Critical Risk Action	Significant Risk Action	Merits Attention Action	
Kimberley Depot (incl. Security) #	Final Report 100%	Reasonable	-	-	4	
Housing Repairs #	Final Report 100%	LIMITED	-	1	4	
Public Health Funerals	Final Report 100%	Reasonable	-	-	4	
Leasehold Properties	Final Report 100%	Reasonable	-	1	2	
Garages	Final Report 100%	Substantial	-	-	2	
Car Parks	Final Report 100%	Substantial	-	-	-	
Section 106 Agreements	Final Report 100%	Reasonable	-	-	3	
HMO Licences	Final Report 100%	Substantial	-	-	1	
Rents	Final Report 100%	Substantial	-	-	1	
Council Tax	Final Report 100%	Substantial	-	-	2	
Neighbourhood Warden	Final Report 100%	Reasonable	-	1	-	
Fuel Management	Final Report 100%	Substantial	-	-	1	
Benefits	Final Report 100%	Reasonable	-	-	3	
Waste Management	Final Report 100%	Substantial	-	-	3	
LLL – Online Payments System	Final Report 100%	Substantial	-	-	-	
Gas Servicing and Maintenance	Final Report 100%	Reasonable	-	1	1	
Employee Authentication Service	Final Report 100%	Substantial	-	-	2	
Governance - Covid-19 Grants	Final Report 100%	Substantial	-	-	-	
Utilities (Energy and Water)	Final Report 100%	Reasonable	-	1	1	
Housing Delivery Plan	Final Report 100%	Substantial	-	1	2	
LLL – Kimberley Leisure Centre	Final Report 100%	Substantial	-	-	4	
Sundry Debtors	Final Report 100%	Reasonable	-	-	5	
Declarations of Interest	Draft Report 90%	Pending	-	-	-	
Creditors and Purchasing	Draft Report 90%	Pending	-	-	-	
Housing Voids Management	In Progress 75%	Pending	-	-	-	
Computer/ICT and Cyber Risk	In Progress 75%	Pending	-	-	-	
Planning Enforcement	In Progress 50%	Pending	-	-	-	
Bank Reconciliation	In Progress 50%	Pending	-	-	-	
Operational Risk Management	Deferred 0%	-	-	-	-	
Health and Safety	Deferred 0%	-	-	-	-	
NNDR	Deferred	-	-	-	-	
Treasury Management	Deferred 0%	-	-	-	-	
Climate Change	Deferred 0%	-	-	-	-	
Housing Management System	Deferred 0%	-	-	-	-	
Human Resources	Deferred 0%	-	-	-	-	
Planning and Building Control	Deferred 0%	-	-	-	-	
Procurement/Contract Management	Deferred 0%	-	-	-	-	
# Completed 2020/21 audits			Total	0	9	74

4. QUALIFICATIONS

The opinions expressed in this report have been based upon the work carried out by Internal Audit in 2020/21 (and subsequently beyond year-end) and other assurance reports received, including those from the external auditors.

In the context of the Standards, 'opinion' means that Internal Audit will have done sufficient, evidenced work to form a supportable conclusion about the activity being examined. Internal Audit will word its opinion appropriately if it cannot give reasonable assurance (e.g. because of limitations to the scope and/or adverse findings arising from its work).

In giving an opinion, it should be noted that assurance can never be absolute. The most that Internal Audit can provide to the Council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to the attention of Internal Audit during the course of its work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The overall opinion is therefore provided with the following caveats:

- The opinion does not imply that Internal Audit has reviewed all the Council's risks, controls and governance arrangements. The opinion is substantially derived from the conduct of risk-based audit assignment work and, as such, it is only one component that is taken into account when producing the Annual Governance Statement.
- No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
- Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each audit report are to be realised.

5. ISSUES RELEVANT TO THE ANNUAL GOVERNANCE STATEMENT

This Committee considered significant governance issues as part of the draft Annual Governance Statement for 2020/21 that was approved on 17 May 2021.

The Chief Audit and Control Officer has reviewed the draft Annual Governance Statement. The significant governance issues raised in the statement were considered to be appropriate. It was also found that the issues carried forward from the previous year had been addressed or were ongoing items that are in the process of being addressed.

With regard to the audits completed during the year, no actions were classed as being critical where action was considered imperative to ensure that the Council was not exposed to high risks. Where a limited assurance opinion was issued, the outstanding actions from these audits are not thought to be significant to the preparation of the Annual Governance Statement.

6. SUMMARY OF INTERNAL AUDIT ACTIVITY

6.1 Performance Overview

Overall, 89% of planned audits were completed or awaiting finalisation at the year-end, which is slightly below the target of 90%. The main impact on the service has been from the pandemic and the urgency of diverting Internal Audit resources towards supporting other areas, including vital work associated with the quality assessment and fraud checking of grants paid under the emergency business grants and local discretionary grants schemes. All outstanding and deferred audits will be reconsidered as early as practicable in 2021/22.

A total of five audits were completed in respect of the key financial systems (out of the 10 included in the original plan). The audits of Bank Reconciliation and Creditors and Purchasing are nearing completion at the time of writing and are expected to be completed by 31 July 2021. The audits of Business Rates, Cash Receipting and Treasury Management were referred as part of a revision to the Internal Audit Plan approved in November 2020 to reduce the pressure on the audit work programme. These audits have been included in the Internal Audit Plan 2021/22.

During the year, 40 audit reports were issued (including 11 in respect of 2019/20) with a further eight reports awaiting finalisation. The reports included 83 recommendations, of which nine were considered to be 'significant'. No recommendation was classified as 'critical' where action was considered imperative to ensure that the Council was not exposed to high risks.

A limited assurance opinion was issued in respect of the audits of Cash Receipting (Payment Kiosk) and Housing Repairs. This opinion is given where Internal Audit considered that controls within the respective systems provided only limited assurance that risks material to the achievement of the system's objectives are adequately managed. Progress is being made with the respective improvement actions (and/or the risk has been mitigated by current circumstances) and the outstanding matters are not thought to be sufficient so as to affect the overall opinion.

6.2 Internal Audit Resources

The three established auditors remained in post throughout the period.

No additional resources were required to complete the revised audit plan.

6.3 Special Investigations

Internal Audit completed work on the following special investigations:

- A governance review to provide assurance that the Council had complied with central government guidance on the various grants given to local businesses as part of the Covid-19 Emergency Grants Schemes.

The review also sought confirmation of compliance with internal governance protocols regarding the Covid-19 Community Support Grants provided to voluntary and mutual aid groups.

- Supporting the Head of Finance Services with the production of property values in the annual Statement of Accounts and supporting with the responses to accounts enquiries from the external auditors.
- Providing a series of compliance reports (seven in total) to the Head of Revenues, Benefits and Customer Services in respect of the Discretionary Business Grants Scheme. This work involved the prompt completion of summary quality assurance and fraud checks of provisional awards prior to the grants being released.
- Reviews of evidence presented in support of Right-to-Buy purchases.
- A review of the governance, systems and procedures operating in respect of the Council Tax Hardship Scheme.
- Providing further support with scrutiny and quality checking in respect of the Covid-19 related support payments 'Self-Isolation Payments' that the Council administered on behalf of central government.
- A review of the systems, procedures and key controls operating in respect of Access to Department for Work and Pensions Data through the Employee Authentication Service (EAS). The review was informed by the findings of the annual external audit of the EAS, details of which were provided by the DWP, which included a generic set of issues identified by auditors at a national level, Internal Audit provided DWP and management with an assurance opinion in a local context.
- Provide an assurance opinion following a review of the second phase of Covid-19 business grant making during autumn/winter 2020/21. This work included the production of a governance report showing Members the audit trail for the payment of business support grants and the relevant safeguards, key controls and fraud checks in place.
- Assessments of the financial viability of potential suppliers and service providers applying to be considered for a number of tendered contracts and of potential tenants for the Council's commercial premises.

6.4 Corporate Counter Fraud Activity and National Fraud Initiative (NFI)

Internal Audit continues to take a prominent role in leading and co-ordinating counter fraud activities. It committed around 30 days to counter fraud activity in 2020/21, which included work to co-ordinate and complete elements of the NFI data matching exercise.

An annual report on counter fraud activity will be presented to this Committee in September 2021 to provide Members with details of activity in 2020/21. The report will also include the outcome of a fraud risk assessment exercise, in conjunction with senior management, to inform the Fraud and Corruption Risk

Register, and a proposed action plan for the forthcoming year, the delivery of which will further strengthen the current arrangements in place.

6.5 Erewash Internal Audit

The Internal Audit Collaboration with Erewash Borough Council to provide joint working and management arrangements of internal audit services commenced in 2015. The key elements of the proposal were considered by the General Purposes and Audit Committee on 9 March 2015.

During 2020/21, a total of 17 audit days was allocated to work completed on behalf of Erewash, including an element of management time. Internal Audit has provided independent assurances to the Erewash management and Members of their Audit Committee on their risk management arrangements and services relating to cemeteries and the crematorium.

The collaboration with Erewash is ongoing with the potential to develop further in 2021/22 and allow opportunities to provide more resilience, help with officer development and produce financial savings for both authorities.

7. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

7.1 Compliance with Proper Practice

In order to facilitate the review of the effectiveness of internal control required by the Accounts and Audit Regulations 2015, it is necessary to complete a review of the effectiveness of its internal audit.

The latest review was completed as a self-assessment against 'proper practice' consisting of the Public Sector Internal Audit Standards and the Local Government Application Note. Internal Audit was subjected to an External Quality Assessment (EQA) in 2018 by a qualified, independent assessor from outside of the organisation, which is a periodic requirement of the Standards.

The effectiveness of Internal Audit is not solely judged against the extent of compliance with the Standards since the reviews are about effectiveness and not process. In addition to the self-assessment checklist, other aspects provide evidence to support the review including reports on the results of completed audit assignments and any significant findings; reports setting out the Internal Audit Plan for the forthcoming year; and an annual report on the performance of Internal Audit.

The review concluded that progress continues to be made to strengthen the role of Internal Audit at a corporate level, not least through the formal reporting procedures to this Committee. The outcome of the earlier EQA indicated that Internal Audit is substantially compliant with the Standards with some areas for development. Whilst areas were identified where improvements could be made these were not felt to be fundamentally undermining the efficiency and effectiveness of Internal Audit, its role within the organisation or the Chief Audit

and Control Officer's ability to assess the internal control environment of the Council.

7.2 Quality Assurance and Improvement Programme

Overall, 89% of the planned audits were complete or awaiting finalisation at the year-end, which is slightly below the target of 90%. The main reason for this was the Covid-19 pandemic lockdown and the urgency of diverting Internal Audit resources towards supporting other areas of work. All outstanding and deferred audits brought forward into the new year audit plan will be considered as early as practicable in 2021/22.

The achievement of a percentage completion of the audit plan does not in itself provide sufficient evidence of the quality of the function. The Chief Audit and Control Officer will continue to develop the Quality Assurance and Improvement Programme (QAIP) as referred to in the Internal Audit Charter.

The QAIP covers all aspects of Internal Audit activity and includes both internal and external quality assessments. The QAIP should provide sufficient evidence of the efficiency and effectiveness of the Internal Audit activity and enable conformance with all aspects of the Standards to be evaluated. The programme should identify opportunities for improvement as appropriate.

The following points are noted with regards to the QAIP:

- A review of the effectiveness of internal audit was completed and the overall findings were satisfactory. An earlier, independent External Quality Assessment concluded that Internal Audit complied with the expectations of the Standards. This should provide Members with confidence in the assurance work provided by Internal Audit. The assessor acknowledged that the service benefits from an experienced team with relevant qualifications, and that it receives positive feedback from senior management and elected members. Furthermore, the review outcomes, when benchmarked against other providers in both the public sector and wider industry, showed that the team compares favourably against its peers.
- Membership of professional bodies and regional audit management groups supports the Chief Audit and Control Officer in identifying best practice and other potential service improvements.
- The Chief Audit and Control Officer undertakes quality reviews of the work of the internal audit activity to provide assurance that it complies with the Standards and meets the requirements of the Internal Audit Charter and Internal Audit Direction document.
- In addition to the wider service review, each audit assignment is subject to a quality management review of audit working papers prior to the distribution of the draft audit report for discussion and agreement with senior management.

- Improvement plans arising from any review of internal audit are prepared and reported to the Deputy Chief Executive and the Governance, Audit and Standards Committee as appropriate.