

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE - 26 MAY 2022

JOINT REPORT ON THE INTERNAL AUDIT ANNUAL REPORT 2021/2022 & THE AUDIT COMMITTEE ANNUAL REPORT 2021/2022 & THE 2022/2023 ANNUAL AUDIT PLAN

1 PURPOSE

- 1.1 To present the 2021/22 Internal Audit Annual Report, 2021/22 operations of the Audit Committee and the 2022/23 Annual Audit Plan.

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the Internal Audit Annual Report for 2021/22
- 2.2 That members of the Audit Committee note the operations of the Audit Committee for 2021/22 attached at Appendix 2
- 2.3 That members of the Audit Committee approve the Internal Audit Plan 2022/23 attached as Appendix 3

3 SUMMARY

- 3.1 The terms of reference of the Audit Committee include:

1. *“The approval (but not direction) of and monitoring of progress against, the Internal Audit Charter and Plan.....”*

9. *Consider the effectiveness of the Council’s governance processes and their compliance with legislation and best practice.....”*

This report presents information to meet the requirements of these sections of the terms of reference and to continue to demonstrate good governance and support the Annual Governance Statement (AGS).

The Public Sector Internal Audit Standards are deemed as proper practice under the Accounts and Audit Regulations 2015 for Local Government in England. The standards state:

2450 Overall Opinions

When an overall opinion is issued, it must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

This report meets these requirements.

3.2 The Audit Committee is part of the Council's governance and assurance arrangements. The key benefits of the Audit Committee are:

- ✓ raising awareness on the need for and benefits arising from good governance (including risk management) and internal control including the implementation of both internal and external audit recommendations.
- ✓ demonstrating the objectivity and fairness of financial and other reporting.
- ✓ reinforcing the importance and independence of internal and external audit.
- ✓ providing additional assurance through a process of independent and objective review by a cross party group of elected Members who can, and do, challenge Cabinet Members and Senior Officers.

As the key assurance Committee of the Council it is best practice that an Annual Report is presented to the Council at the May meeting, on the operations of the Committee during the preceding year, in this case 2021-22. The structure of the report is based on the terms of reference and includes a summary of the business conducted by the Committee during this period (attached as Appendix 2).

4 PREVIOUS MINUTES

Audit Committee – 27 May 2021, 14 July 2020 & 30 May 2019

5 2021/22 INTERNAL AUDIT ANNUAL REPORT

5.1 Assurance and Opinion

5.1.1 The Council's Section 151 Officer's statutory obligation under the Accounts and Audit Regulations 2015 to review the effectiveness of the system of internal control is informed by the work of Internal Audit. The assurance derived from this work forms part of the Council's assurance framework.

5.1.2 The system of internal control helps the Council to manage and control the risks which could affect the achievement of its priorities and objectives rather than eliminate them completely. Internal Audit and the other assurance processes therefore provide reasonable and not absolute assurance of the adequacy and effectiveness of the Council's framework of governance, risk management and internal control which is included within the Annual Governance Statement.

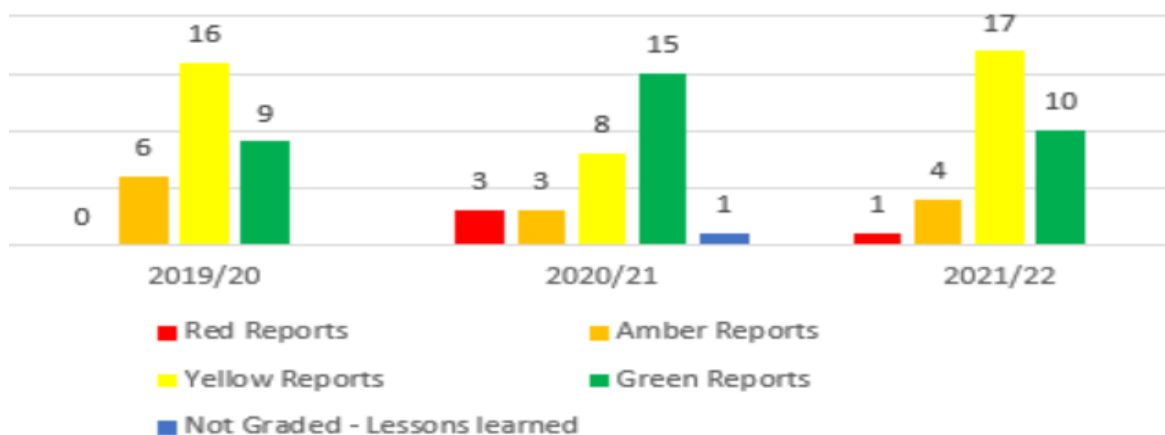
5.1.3 The planned Internal Audit resources for 2021/22 was 824 days which included 47 days specialist ICT audit provision provided by Lighthouse Consultancy. The team achieved

50% of the planned work, see 5.1.8, with some items being rescheduled into the 2022/23 plan. In 2021/22 there have also been a number of unplanned audit assignments.

Based on the work undertaken during the year (areas attached as Appendix 1), the implementation by management of the agreed recommendations and assurance obtained from other work/sources, Internal Audit’s annual opinion provides reasonable assurance in respect to the adequacy and effectiveness of the Council’s framework of governance, risk management and internal control within the areas of the Council reviewed during the year. See paragraph 5.6 in the Annual Governance Statement for reasoning for giving this opinion.

- 5.1.4 As in previous years Senior Management have provided information or updates to the Audit Committee where requested to provide explanations as to why progress on the implementation of recommendations was not as agreed.
- 5.1.5 As in previous years this Annual Report includes information in respect to the number of reports issued and their grading. This information is shown below for 2021/22 with comparisons with 2020/21 and 2019/20

Number of Reports Issued by Financial Year and Grading

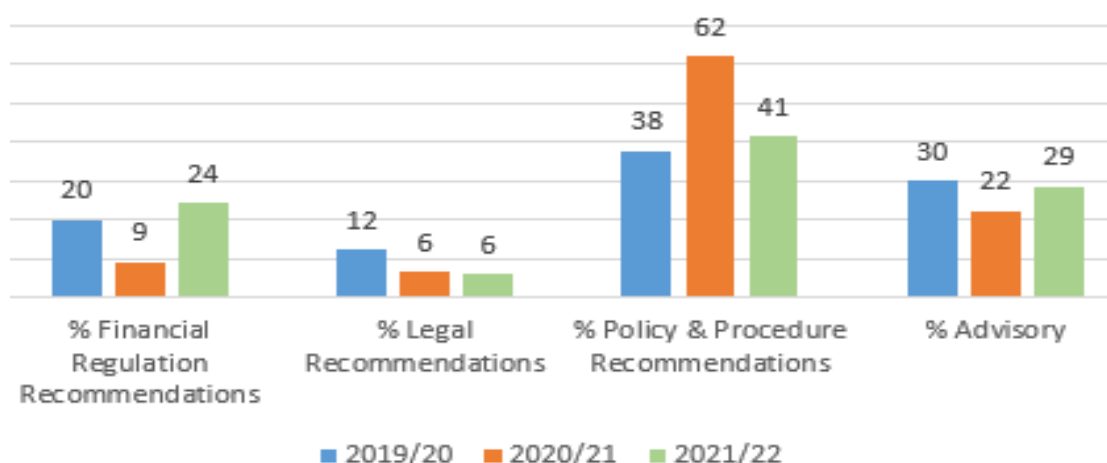


(Grading’s - Green = good; Yellow = reasonable; Amber = limited; Red = poor)

The above graph shows that the number of green, amber and red reports issued have remained comparable over 3 years, whilst the number of yellow reports have increased from 2020/21, however is comparable to the 2019/20 figure. This information is broken down further in paragraph 5.1.6.

- 5.1.6 Further analysis shows the types and percentage of recommendations made in audit reports, and this is detailed in the graph below:

% of Recommendations made by Category and Financial Year



In 2021/22 30% of audit recommendations made were Legal/Financial Regulation related, this is an increase from 15% during 2020/21 and a slight decrease from 32% during 2019/20. In 2021/22 41% of the recommendations were Policy and Procedure related compared to 62% in 2020/21 and 38% in 2019/20. Whilst these figures demonstrates an increase in the number of legal and financial recommendation from 2020/21 and a decrease in the number of policy and procedure recommendations the figures are comparable to the % figures in 2019/20. There is no clear reason for the increase in Legal/Financial Regulation related recommendations from 2020/21. However it is felt that changes to working practices and hybrid working as a result of the COVID pandemic could be a factor.

Internal Audit continue to work with management in respect to reducing the number of Legal/Financial Regulation related improvements required.

5.1.7 Internal Audit reports show advisory points, these are low risk findings which managers may find useful to consider but are not of any significant risk to necessitate making a recommendation.

5.1.8 The effect of the COVID pandemic on some Council services was still present in 2021/22. This, coupled with other resource challenges, has meant that the increase in audit work was not as high as initially planned. However, the Internal Audit Team continue to work with services to ensure risks are appropriately managed and adequate systems of internal control are in place.

5.2 Public Sector Internal Audit Standards (PSIAS) and External Assessment

5.2.1 The Public Sector Internal Audit Standards (defined proper practice under the Accounts and Audit Regulations 2015) were effective from 1st April 2013 and in January 2017 there was an external assessment undertaken against the standards. This is a requirement that must occur every 5 years. The next assessment is taking place during April 2022. The results of this assessment will be reported at the next available Audit Committee meeting following receipt of the assessment report/action plan.

5.2.2 The Quality Assurance & Improvement Programme (QA&IP) was followed during the year. The Audit & Governance Lead Manager undertakes monthly spot checks of completed internal audit work against PSIAS requirements. Any actions/areas for

development have been fed back to the Internal Audit team in year Lessons learnt from QAIP are fed into regular reviews of Internal Audit processes and procedures.

5.2.3 Improvements to audit processes and procedures are continually being reviewed and updated to ensure compliance with the standards.

5.3 Performance reviewed by External Audit

5.3.1 Grant Thornton (UK) LLP were appointed, for a 5 year period, as External Auditor for the Council from 2018/19 and continue with their own external reviews.

5.3.2 It was agreed by the Audit Committee that the Council will appoint new External Auditors via the PSAA procurement route.

5.4 Improvement Activity

5.4.1 During the year, to improve the team’s efficiency, effectiveness and productivity, team meetings and development sessions have taken place. Internal Audit have looked to make changes to improve their adherence to the PSIAS (through completion of PSIAS self-assessment) and have investigated and implemented new/alternative ways of service delivery. Audit share best practice with other local authorities and regularly attend local network groups.

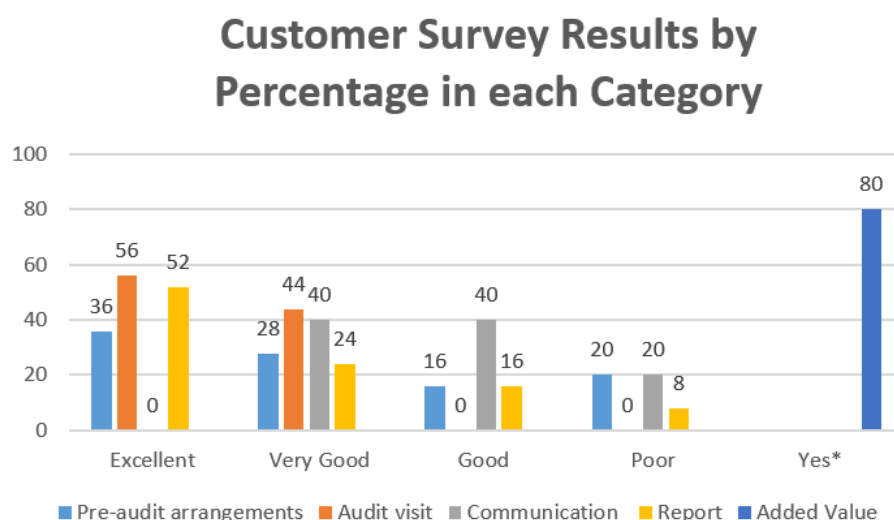
5.4.2 The Audit & Governance Lead Manager and Principal Auditor regularly attend the Local Authority Chief Auditors Network (LACAN). Other members of the team also attend the regional West Midlands Fraud Group (when relevant) which assists in identifying best practice and different approaches to audit work and information exchange.

5.5 Customer Feedback

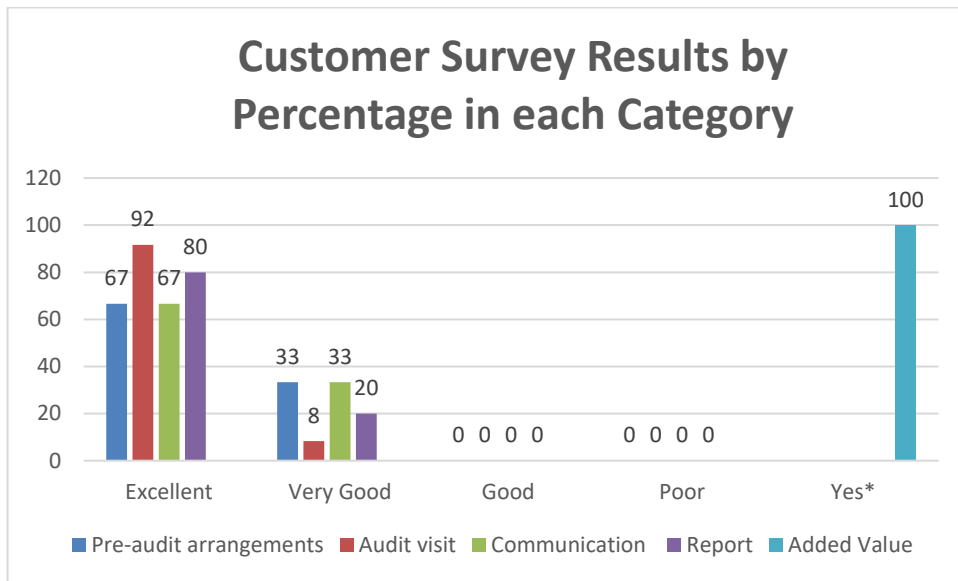
5.5.1 Internal Audit receives customer feedback in several ways:-

- a) Informal feedback from auditees during the audit
- b) Seeking feedback from auditees at draft report discussion meetings
- c) Completion of a post audit electronic questionnaire

5.5.2 From 2019/20 customer surveys have been issued electronically through Microsoft Forms, therefore comparisons have been made between 19/20, 20/21 and 21/22. Results for 2021/22 are detailed below:



Results for 2020/21:



* Percentage of reports where, when asked if audit had added value, the customer answered yes.

The customer feedback form is broken down into different categories (parts of audit process) and has a number of questions in each section. These sections ask for comments in the following areas: Pre-audit arrangements, audit visit, communication, the reporting process and whether the auditee thinks Audit adds value to their service area.

The above graphs demonstrates that the team’s customer performance has remained extremely high within all areas included in the customer feedback form during 2021/22, 80% of our customers think we are a positive support and add value to their service area.

6 **CONCLUSIONS FOR 2021/22**

- 6.1 Internal Audit have performed well and have made a positive contribution to the governance arrangements within the Council. During 2021/22, completion of the audit plan increased from the previous year despite the Council still experiencing challenges due to COVID. However improvement is needed in this area and the Internal Audit Team have reviewed some of the planning process to ensure it reflects the Council’s risk landscape and matches this to accurate calculations of available resource.
- 6.2 The statutory responsibilities of the Council’s Chief Financial Officer (Section 151 Officer) in respect to internal audit and internal control have been met and the work of the Internal Audit Team and other assurance activity has provided reasonable assurance to the Council on the adequacy of operation of the Council’s internal controls, governance and risk management processes.
- 6.3 The Internal Audit Team have also continued to provide adhoc advice and guidance on governance, procedures, controls, information security and risk management.
- 6.4 However, there are changes occurring both within and outside the Council during 2022/23 and beyond which could affect the team’s future activities including:

- a) The continued pressure on the Council's budget strategy
- b) Further service restructures and re-engineering across the Council, revised governance arrangements and reduced supervisory levels;
- c) Compliance with changing statutory and legislative requirements.
- d) Continuing (but reducing) impact of the Covid-19 pandemic

7 AUDIT COMMITTEE ANNUAL REPORT

7.1 Internal Audit

- 7.1.1 The Internal Audit team has continued to provide the Committee with reports on work undertaken as outlined in the Public Sector Internal Audit Standards (PSIAS - effective from April 2013) and Constitution, highlighting any areas requiring attention by Members.
- 7.1.2 The Internal Audit Plan for 2021/22 was approved by the Committee at the May 2021 meeting and the Internal Audit Charter for 2021/22 was approved by the Committee at the January 2022 meeting.
- 7.1.3 The Audit Annual Update report was provided to the Committee in May 2021.

7.2 External Audit

- 7.2.1 The External Auditors, Grant Thornton have produced/presented their reports to the Committee as required by legislation, accounting standards and the external audit code of practice.

7.3 Governance

- 7.3.1 The Annual Governance Statement 2020/21 was approved at the May 2021 Audit Committee meeting.
An update on the Annual Governance Statement action plan was presented to the committee in January 2022.
- 7.3.2 The January 2022 meeting reviewed the Council's Strategic Risk Register.
- 7.3.3 The 2020/21 Information Governance Annual Report was presented to the Committee in May 2021.

7.4 Treasury Management

- 7.4.1 The Committee received the 2020/21 outturn and in year updates for 2021/22. The Treasury Management Strategy 2022/23 was reviewed prior to approval by Cabinet.

7.5 Statement of Accounts 2020/21

- 7.5.1 The Statement of Accounts was approved by the Committee following external audit at the September 2021 meeting. As in previous years the approval meeting was preceded by a training session with key Finance staff who explained the statements and the changes that had occurred.

7.6 Anti-Fraud & Corruption

7.6.1 The 2020/21 Anti-Fraud & Corruption Annual Report and 2020/21 updated policy was received in May 2021.

7.7 General

7.7.1 The Committee reviewed its Terms of Reference at its first meeting of the municipal year as set out in the Constitution. The Committee also received and agreed a report to extend the responsibilities of the committee at the January 2021 meeting.

7.8 Conclusions for 2021/22 and the future 2022/23

7.8.1 The Committee has considered comprehensive agendas in order to provide assurance for Members and the community on the audit, governance (including information governance), risk management, financial statements, treasury management, complaints and anti-fraud and corruption arrangements of the Council.

7.8.2 The Committee recognises that the Council is continuing to experience some significant challenges and that it must continue to seek and provide appropriate assurance during 2022/23. Most notable is the continued impact of COVID, organisational changes, continued significant reductions in resources and the more commercial approach being adopted by the Council.

7.8.3 As detailed in paragraph 7.7.1 above the terms of reference for the Audit Committee have been extended to include areas such as partnership working and climate change. Therefore reports will be presented on these additional areas during 2022/23.

8 Internal Audit Plan 2022/23

8.1 Internal Audit has a statutory obligation under legislation to provide assurance to the Council as part of the Council's corporate governance framework and the effective management of risks. It also strives to provide a quality, added value and up to date service for the Council.

8.2 Internal Audit work, in addition to obtaining assurance on key areas, risk management and controls for the Council, aims to challenge where controls are not required, question value for money and make suggestions for adjustments to existing controls to make processes more efficient. This will assist managers and their teams to achieve their objectives, identify further savings and contribute to the achievement of the Council's priorities.

8.3 Internal Audit resources are limited. To ensure Internal Audit can provide reasonable assurance to managers, Members and the Council an annual Audit Plan is developed. Professional Internal Audit standards¹ and good practice set out that Internal Audit planning should be directly linked to the Council's objectives and priorities and be directed by the Audit Charter agreed by the Audit Committee in January 2022. The plan is informed and influenced by previous Internal Audit work, areas highlighted during previous audits, areas identified by management teams, External Audit requirements, the strategic and ICT risk registers, external assessments and local, regional and national networking intelligence.

¹ Public Sector Internal Audit Standards

- 8.4 The plan is attached as Appendix 3, it has, has been drawn up based on the internal and external resources available for 2022/23 (see 8.5 below), the factors in paragraph 8.3 above and discussions with the SMT and management. The resultant plan should provide a reasonable level of assurance for 2022/23 but limited to the areas reviewed.
- 8.5 The planned available audit days for 2022/23 are 652 days which includes 49 days specialist ICT audit work. The audit plan is dynamic/scalable as it's based on risk and can change where new risks are identified. Audit therefore intend to continually review the plan and meet with Managers to discuss the audits required to be completed in order to provide a reasonable level of assurance at the end of 2022/23. Audit Committee members will be updated throughout the year with any changes to the 2022/23 plan.
- 8.6 The plan includes approximate 2% contingency to meet any unexpected work requirements, any changes identified during the year or changes to resources during the year. Due to the nature of the plan and its link to risks, during delivery there will be regular dialogue with the Chief Exec, SMT and Managers to ensure that the appropriate risks and controls are being reviewed by the resources available. Any significant changes will be agreed with the Chief Executive and the appropriate Director/Executive Director and will be reported for information to the Senior Management Team and this Committee.
- 8.7 The External Auditor undertakes their own planning process and presents their plan to the Audit Committee. Internal Audit and Senior Management liaise with them to ensure that duplication is avoided, that the key risks are reviewed and that the external audit fee is minimised. Similar liaison takes place with Scrutiny to avoid duplication or to ensure work is complementary.

9 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of the Internal Audit and Information Governance Teams have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified.
Environmental Impact	All members of the Audit and Information Governance Teams are environmentally aware and if any issues were identified they would be notified to the appropriate manager.
Legal Implications	<p>The Accounts and Audit Regulations 2015 sets out the detailed requirements for local authorities in relation to keeping adequate accounting records and control systems, preparing, approving and publishing a statement of accounts, and making various documents available for public inspection and objection and questioning by local electors (note The Local Audit (Public Access to Documents) Act 2017_extends public inspection rights to journalists). Under Regulation 3, the authority “must ensure” that it has (and reviews) a “sound system of internal control” whilst Regulation 5 states that it “must undertake an effective internal audit”. There is a new requirement to prepare and publish a “narrative statement”, commenting on the authority’s financial performance and economy, efficiency and effectiveness in the use of resources over the year.</p> <p>The information set out in this report illustrates the work that has been undertaken to meet the appropriate statutory requirements.</p> <p>The Public Sector Internal Audit Standards (PSIAS) is mandatory across the whole of the public sector. The purpose of the PSIAS is defined as follows:</p> <ul style="list-style-type: none"> • define the nature of internal auditing within the UK Public Sector; • set basic principles for carrying out Internal Audit in the UK Public Sector; • establish a framework for providing internal audit services in respect of organisational processes and operations; • facilitate the development of an effective Quality Assurance and Improvement Programme and; • define a mandatory Code of Ethics. <p>Undertaking the audits as set out in the report, and providing updates and an Annual Report to this Committee contributes towards meeting these requirements.</p> <p>Further reference to legal requirements and the implementation of those legal requirements in accordance with CIPFA guidance are contained within the main body of the report. In the event that an audit reveals an issue which requires a recommendation concerning a legal matter this can also be referred to the Council’s Legal Services Team for further advice and assistance.</p> <p>RP 5/5/22</p>
Links with Corporate Priorities	All aspects of the Audit teams work support good governance which underpins the achievement of the Council’s objectives and priorities.

Risks and Opportunities	All aspects of the Audit teams work supports managers and the Council to identify and manage their risks and opportunities.
Financial Implications	There are no direct financial implications arising from the recommendations within this report. AEM 28.04.22
Ward Implications	The work of the Audit team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards.

10 BACKGROUND PAPERS

Annual Audit Plan 2022/23 and Charter
Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector 2013 and External Assessment January 2017
Accounts and Audit Regulations 2015

Report by
Rob Montgomery, Audit & Governance Lead Manager, 383103
Tracey Drummond, Principal Auditor, 383105

Work undertaken during 2021/22

Audit Area	Days
Additional Home-School Grant (2021-22)	2.98
Advice & Consultancy including org change	17.88
Annual Governance Statement	4.82
Appointee and Deputyship	7.69
Aqueduct Primary	5.50
Bus Subsidy Grant	2.71
Business Continuity	1.39
CCTV Investigation	2.03
Captain Webb	5.01
Car Parking Enforcement	23.61
Church Aston	1.39
Climate change & Carbon Reduction	3.20
Conflicts of Interest	4.23
Corporate Complaints	4.06
Council Tax / NNDR (2021-22)	13.22
Covid-19	45.85
Follow ups	16.77
General Ledger (2021/22))	4.60
HR / Payroll (2021/22)	11.07
Haughton School	2.40
Horsehay Bar & Catering	20.26
John Randall	5.12
Lightmoor	6.50
Lilleshall Primary	6.28
Linden Centre	4.65
Local Transport Capital Block Funding grant	3.35
Making Tax Digital	3.48
Millbrook Primary School	11.86
Money Laundering	1.85
Ombudsman Complaints	49.04
Preston St. Lawrence Primary	5.67
Protect & Vaccinate Grant	0.68
Purchase Ledger (2021-22)	30.35
Red & Amber follow up - The Place theatre	3.81
Special Guardianship	12.60
Sir Alexander Fleming	3.01
St Georges Primary School	5.28
St Peter & St Pauls R C Primary	4.49
St Peters Edgmond	6.98
Strengthening Families Grant	2.85
Structures and other assets owned by council (G100)	0.51
The Bridge School	6.41
Together4Children	10.41

AUDIT COMMITTEE ACTIVITY 2021/22

Area	Activity
Internal Audit	Internal Audit Annual Report 2020/21 Internal update reports of work undertaken throughout the year. Internal Audit Plan 2021/22 Internal Audit Charter for 2022/23 Update on Public Sector Internal Audit Standards Self-Assessment
External Audit	External Audit Fee Letter 2021/22 External Audit Interim Report 2020/21 External Audit Plan 2022/23 External Audit Grants Report External Audit annual audit letter
Governance	Annual Governance Statement (AGS) 2020/21 Half yearly progress on the 2020/21 AGS Action Plan Review of the Strategic Risk Register Information Governance Annual Report 2020/21 Caldicott Guardian Annual Report 2020/21 Information Governance Update Report of work undertaken throughout the year. Information Governance Work programme 2020/21 Publication of Information on Councillors who Traded with the Council during 2020/21 Audit Committee Annual Report 2020/21 Report to those charged with Governance 2020/21 update
Treasury Management	Treasury Management Outturn report 2020/21 & 2021/22 update Draft 2022/23 Treasury Management Strategy and update 2020/21 Verbal presentation from Councils Treasury Advisors
Statement of Accounts	Draft Statement of Accounts 2020/21 Audited Annual Statement of Accounts 2020/21
Fraud & Corruption	2020/21 Annual Report on Corporate Anti-Fraud & Corruption Policy and Policy update 2021/22
General	Audit Committee terms of Reference reviewed Annual customer feedback report and assurance on lessons learnt 2020/21