

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE - 14 July 2020

JOINT REPORT ON THE INTERNAL AUDIT ANNUAL REPORT 2019/2020 & THE AUDIT COMMITTEE ANNUAL REPORT 2019/2020 & THE 2020/21 ANNUAL AUDIT PLAN

JOINT REPORT OF THE AUDIT & GOVERNANCE TEAM LEADER AND THE PRINCIPAL AUDITOR

1 PURPOSE

- 1.1 To present the 2019/2020 Internal Audit Annual Report and the 2019/2020 operations of the Audit Committee.

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the Internal Audit Annual Report for 2019/2020
- 2.2 That members of the Audit Committee note the operations of the Audit Committee for 2019/2020
- 2.3 That members of the Audit Committee approve the Internal Audit Plan 2020/21 attached as Appendix A

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 Full Council on the operations of the Committee during 2019-20. 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 – 30 May 2019, 29 May 2018, 27 June 2017

5 2019/20 INTERNAL AUDIT ANNUAL REPORT

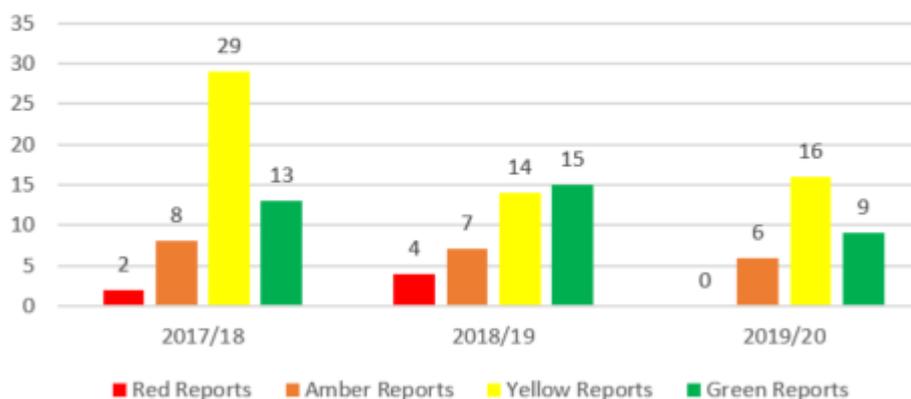
5.1 Assurance and Opinion

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 2019/2020 was 875 days which included 53 days specialist ICT audit provision provided by the Staffordshire framework contract. The team achieved 70% of the planned work, see 5.1.8, with some items being rescheduled into the 2020/21 plan. In 19/20 there have also been a number of unplanned audit assignments. Based on the work undertaken during the year (areas attached as Appendix 1) and the implementation by management of the agreed recommendations, 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.
- 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 2019/20 with comparisons with 2018/19 and 2017/18 shown in brackets.

Number of Reports Issued by Financial Year and Grading

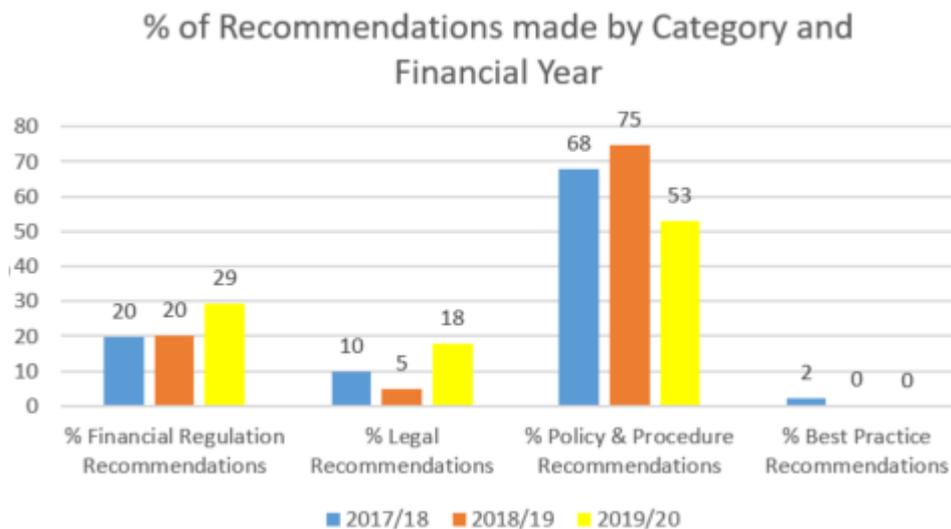


(Grading's - Green = good; Yellow = reasonable; Amber = limited; Red = poor)

31 audit reports were issued during 2019/20, 9 less than 2018/19 and 21 less than 2017/18, See 5.1.8 for an explanation as to the reason for this.

The above graph also shows that the number of green, amber & red reports have decreased from 18/19 but yellow reports have increased.

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



In 2019/20 47% of the recommendations were Legal/Financial Regulation and this is an increase from 25% during 2018/19 and 30% in 2017/18. 53% of the recommendations were policy and procedure compared to 75% in 2018/19 and 68% in 2017/18. This demonstrates a switch between Policy and Procedure recommendations to the more serious Legal/Financial recommendations.

5.1.7 Internal Audit have moved away from best practice recommendations and are now showing these as management advisory points, rather than recommendations. This is the reason there are no best practice figures shown for 19/20 and only 1 in 2018/19.

5.1.8 There are a number of reasons why less audit reports were produced in 2019/20, these include:

- The scope of the individual audits reviewed during each audit year are more focused and complex to address the Council’s changing risks and priorities.
- Increased number of days allocated to individual audits therefore reducing the actual number of audit reports issued.
- Internal Audit undertook a very detailed review of the new Social Care finance system called Controc. As this was a new system that processed large value payments it was felt that management assurance was of particular importance. Therefore a significant number of audit days were spent reviewing the system. An update on the outcome of this audit is expected to be reported to Audit Committee in October.
- No audit work has been carried out during March 2020 due to the Covid-19 pandemic as resources throughout the Authority were diverted to help in other areas.

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.
- 5.2.2 The Quality Assurance & Improvement Programme (QA&IP) was followed during the year and any actions have been fed back to the team, individuals or been used to update the teams processes.
- 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 as External Auditor for the Council from 2018/19 and continue with their own external reviews.

5.4 Improvement Activity

- 5.4.1 During the year to improve the team's efficiency, effectiveness and productivity we have held team meetings and development sessions. We have looked to make changes to improve our adherence to the Standards and we have investigated and implemented new/alternative ways of service delivery. We share best practice with other local authorities and regularly attend local network groups.
- 5.4.2 The Audit & Governance Team Leader and Principal Auditor regularly attend the Local Authority Chief Auditors Network (LACAN). Other members of the team also attend regional Fraud, Contract and Unitary/Met Authority groups (when relevant) which assist 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 questionnaire

- 5.5.2 The analysis of post audit questionnaires average feedback is shown in the table below for 2017/18 & 2018/19

Question	2017/18 From top score of 5	2018/19 From top score of 5	Difference from 17/18 to 18/19
Pre- Audit Arrangements	4.7	5	+0.3
Audit Visit	4.9	5	+0.1

Communication	4.6	4.8	+0.2
Report	4.6	4.9	+0.3
Is audit a positive support – Yes	100%	100%	No change

From 2019/20 Customer Surveys have been issued electronically through Microsoft Forms and the results are collated automatically. For this reason we have changed the way we are reporting and believe it is easier to read. Future years reporting will show comparisons with previous years, in graphical format.



The customer feedback form is broken down into different sections and have a number of questions in each section. These sections asks 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 graph demonstrates that the team’s customer performance has remained extremely high within all areas included in the customer feedback form during 2019/2020. 100% of our customers think we are a positive support and add value to their service area.

Our customer feedback has been positive, the maintenance of these scores is a credit to the team and how they have approached their work, we will however aim to improve the ‘Good’ communication to ‘very good’.

6 **CONCLUSIONS FOR 2019/20**

- 6.1 Despite limited resources and changes to services during the year and therefore the rescheduling and re- defining of scopes Internal Audit have performed well and made a positive contribution to the governance arrangements within the Council.
- 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 Internal Audit has

provided reasonable assurance to the Council on the Council's internal controls, governance and risk management processes for the areas reviewed in 2019/2020

- 6.3 The Internal Audit team have also continued to provide advice and guidance on governance, procedures, controls, information security and risk management.
- 6.4 However, there are numerous major changes occurring both within and outside the Council during 2020/21 and beyond which could affect the team's future activities e.g. :-
- 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) The continued development of relationships with revised service delivery areas to ensure the team continues to support the authority in achieving its objectives.
 - d) Compliance with any changes to Statutory and Legislative requirements.
 - e) Impact of 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 2019/2020 was approved by the Committee at the May 2019 meeting and the Internal Audit Charter for 2019/2020 was approved by the Committee at the January 2020 meeting.
- 7.1.3 The Audit Annual Update report was provided to the Committee in May 2019

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 2018/2019 was approved at the May 2019 meeting after consideration of the supporting information. An update on the action plan derived from 2018/2019 plan was presented to the Committee in January 2020
- 7.3.2 The July 2019 meeting reviewed the Council's Strategic Risk Register.
- 7.3.3 The 2018/2019 Information Governance annual report was presented to the Committee in May 2020.
- 7.3.4 An Information Governance update report is provided to the Committee at all meetings, with the May 2019 meeting including an update from the Caldicott Guardian.

7.4 Treasury Management

7.4.1 The Committee received the 2018/2019 outturn and in year updates for 2019/2020 The Treasury Management Strategy 2020/21 was reviewed prior to approval by Cabinet.

7.5 Statement of Accounts 2018/2019

7.5.1 The Statement of Accounts was approved by the Committee following external audit at the July 2019 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 2018/19 Anti-Fraud & Corruption Annual Report and 2019/20 updated policy was received in May 2019.

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

7.8 Conclusions for 2019/20 and the future 2020/21

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. Many challenging questions have been asked by Members who have required Senior Officers to attend and give account for decisions taken and progress in implementing both internal and external audit recommendations.

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 2019/2020. Most notable are the organisational changes, continued significant reductions in resources and the more commercial approach being adopted by the Council.

8 Internal Audit Plan 2020/21

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 2020. 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.
- 8.4 The plan is attached as Appendix A with details of the ICT audit work shown on a separate worksheet, this has been informed by discussion with ICT. The plan has been drawn up based on the internal and external resources available for 2020-21 (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 2020/21 but limited to the areas reviewed.
- 8.5 The planned resources for 2020/21 are 878 days which includes 47 days specialist ICT audit work. This is a 12 month plan but due to the Covid 19 pandemic audit work did not start on 1/4/20. The audit plan is dynamic/scaleable as it's based on risk and can change where new risks are identified. Audit therefore intend to review the plan in September (6 months from the start of the financial year) 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 2020/21. Audit Committee members will be updated throughout the year with any changes to the 2020/21 plan.
- 8.6 The plan includes approximate 5% 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 Exec and the appropriate Director and will be reported for information to SMT 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.

¹ Public Sector Internal Audit Standards

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 (note The Local Audit (Public Access to Documents) Act 2017 extends public inspection rights to journalists) and objection and questioning by local electors. The authority “must ensure” that it has (and reviews) a “sound system of internal control”: Regulation 3. It “must undertake an effective internal audit”: Regulation 5. 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</p>

	to the Council's Legal Services Team for further advice and assistance. AL 3/7/2020
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	Internal Audit have operated within base budget for 2019/20. Implications, if any, arising from any impact of the pandemic on the service will be reflected in the Council's financial monitoring reports during 2020/21. There are no direct financial implications anticipated from adopting the recommendation of this report.
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 2020/21 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
Tracey Drummond, Principal Auditor, 383105

Work undertaken during 2019/2020

AUDIT AREAS	DAYS
Advice & Consultancy including org change	20
AGS and certification	9
Benefits (2018-19)	9
Benefits (2019-20)	5
Building Capacity - Voluntary Sector	3
Bus Subsidy Grant	2
CPD Trading Service	10
Children in Care Health Assessments	19
Controcc	127
Donnington Wood Junior	8
Fleet Management process	7
Follow ups	5
General Ledger (2019-20)	1
HR / Payroll (2019-20)	6
Holy Trinity Academy	12
Holy Trinity Follow Up	0
Horsehay Golf Course	12
Ice Rink	0
Ladygrove Primary school - Follow up	2
Life Ready Work Ready	4
Local transport grant	2
Madeley Town Council	7
Muxton Primary	10
Muxton Primary School - Follow up	0
My View System Testing	1
Newport Junior School	1
Newport Pool	12
Oakengates Town Council	14
PSIAS Assessment	6
Powher Contract review	8
Procurement - Contract review process	10
Purchase Ledger (2019-20)	18
Randlay Primary	6
Randlay Primary School - Follow up	0
Red & Amber Follow up - Direct Payments	5
Red & Amber Follow up - My Options Operational	2
SEND EHCP	15
Sales Ledger (2018-19)	5
Sales Ledger (2019-20)	15
School Fund - Apley wood Extended Day Fund	6
School Fund - Dothill (All Saints)	2
School Fund Audit - Hollinswood Primary	1
School Fund Audit - Lawley Primary	1
School Fund Audit - Muxton Primary	3
School Fund Audit - Randlay Primary	1

School Fund Audit - Sir Alexander Fleming	1
School Fund Audit - St Matthews	1
School Fund Audit - Wrekin View	0
School Fund Training - Woodlands Primary	0
School Funds	4
Schools Buy Back	6
Section 17	14
Single Status	3
Sponsorship of Council Assets	15
St Georges Primary School	1
St Peters Bratton	4
Strengthening Families Grant	5
Syrian Refugee	7
Telford 50	10
Telford Ice Rink	5
Telford Land Deal	2
The Place	16
Wrockwardine Wood Junior School	6
apT Planning	4

AUDIT COMMITTEE ACTIVITY 2019/2020

APPENDIX 2

Area	Activity
Internal Audit	Internal Audit Annual Report 2018/19 Internal update reports of work undertaken throughout the year. Internal Audit Plan 2019/20 Internal Audit Charter for 2020/21 Update on Public Sector Internal Audit Standards Self-Assessment
External Audit	External Audit Fee Letter 2019/20 External Audit Interim Report 2018/19 External Audit Plan 2019/20 & 2020/21 Grant Report 2018/19 External Audit annual audit letter
Governance	Annual Governance Statement (AGS) 2018/19 Half yearly progress on the 2018/19 AGS Action Plan Review of the Strategic Risk Register Information Governance Annual Report 2018/19 Caldicott Guardian Annual Report 2018/19 Information Governance Update Report of work undertaken throughout the year. Information Governance Work programme 2019/20 Publication of Information on Councillors who Traded with the Council during 2018/19 Audit Committee Annual Report 2018/19
Treasury Management	Treasury Management Outturn report 2018/19 & 2019/20 update report Draft 2020/21 Treasury Management Strategy and update 2019/20 Verbal presentation from Councils Treasury Advisors
Statement of Accounts	Draft Statement of Accounts 2018/19 Audited Annual Statement of Accounts 2018/19 Capital receipts update
Fraud & Corruption	2018/19 Annual Report on Corporate Anti-Fraud & Corruption Policy and Policy update 2019/20
General	Audit Committee terms of Reference reviewed Audit Committee Annual Report 2018/19