

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE - 27 MAY 2021

JOINT REPORT ON THE INTERNAL AUDIT ANNUAL REPORT 2020/2021 & THE AUDIT COMMITTEE ANNUAL REPORT 2020/2021 & THE 2021/2022 ANNUAL AUDIT PLAN

1 PURPOSE

- 1.1 To present the 2020/2021 Internal Audit Annual Report, 2020/2021 operations of the Audit Committee and the 2021/2022 Annual Audit Plan.

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the Internal Audit Annual Report for 2020/21
- 2.2 That members of the Audit Committee note the operations of the Audit Committee for 2020/21 attached at Appendix 2
- 2.3 That members of the Audit Committee approve the Internal Audit Plan 2021/22 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 2020-21. 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 – 14 July 2020, 30 May 2019 & 29 May 2018

5 2020/21 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.

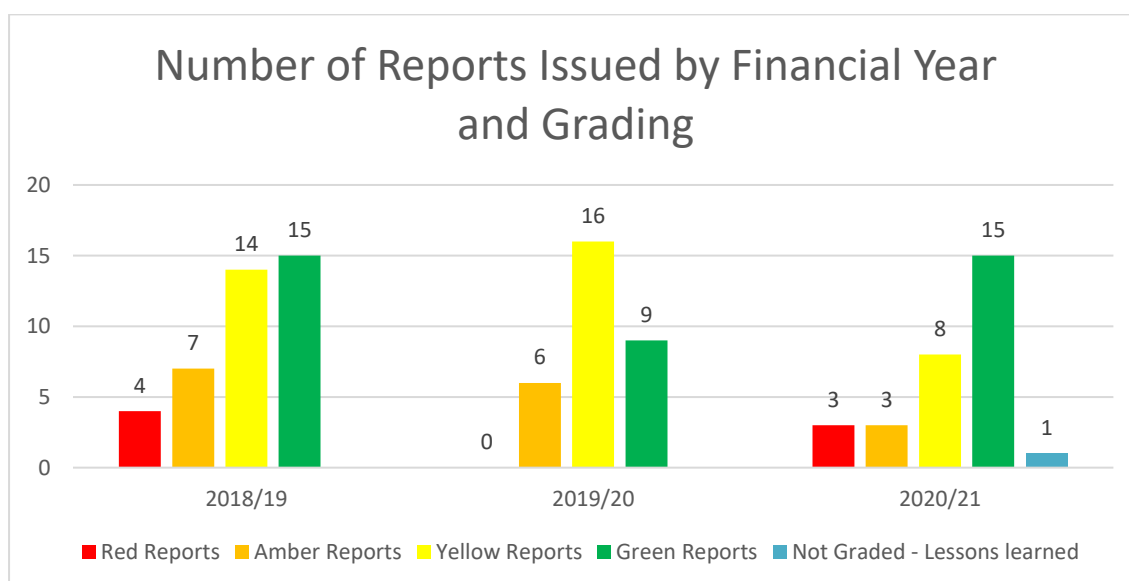
5.1.2 The system of internal control helps the Council to manage and control the risks which could affect the achievement of its priorities and objectives rather than eliminate them completely. Internal Audit and the other assurance processes therefore provide reasonable and not absolute assurance of 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 2020/21 was 878 days which included 47 days specialist ICT audit provision provided by the Staffordshire framework contract. The team achieved 38% of the planned work, see 5.1.8, with some items being rescheduled into the 2021/22 plan. In 20/21 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. 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.

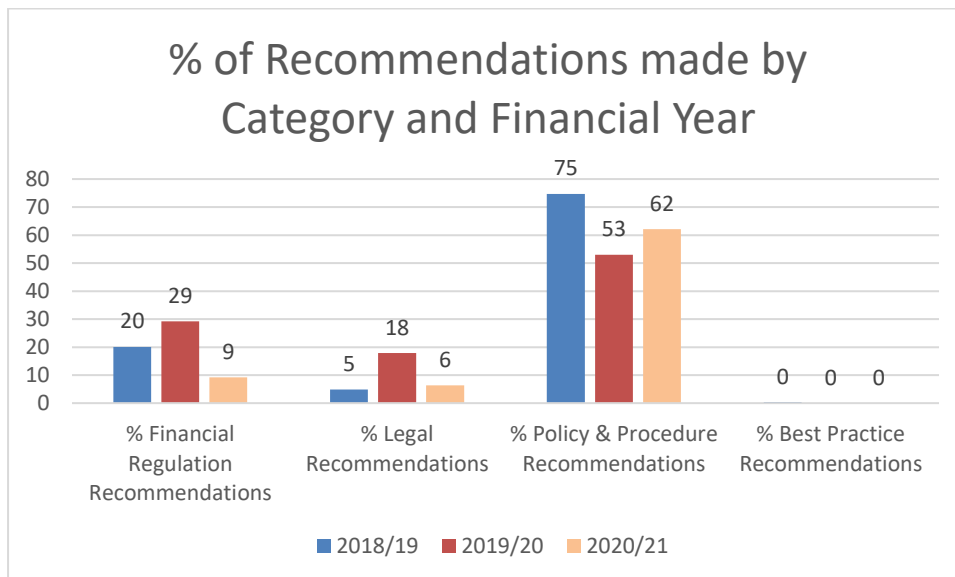
5.1.5 As in previous years this Annual Report includes information in respect to the number of reports issued and their grading. This information is shown below for 2020/21 with comparisons with 2019/20 and 2018/19.



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

The above graph shows that the number of green reports have increased in 2020/21 (compared to 2019/20) and the number of yellow reports have decreased, amber and red reports have remained comparable over all 3 years.

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 2020/21 16% of audit recommendations made were Legal/Financial Regulation related, this is a decrease from 47% during 2019/20 and 25% in 2018/19. 62% of the recommendations were Policy and Procedure related compared to 53% in 2019/20 and 75% in 2018/19. This demonstrates an overall reduction in the number of the more serious Legal/Financial related audit recommendations made.

- 5.1.7 Internal Audit have moved away from giving best practice audit recommendations and these are now shown as management advisory points in audit reports. This is the reason there are no best practice figures shown since 2018/19.
- 5.1.8 The COVID pandemic is the main reason why less audit reports were produced in 2019/20 and 2020/21. Audit work was diluted as Council services concentrated on supporting the community and identifying new ways of working due to COVID. Audit resource was used to support Council COVID related activity such as the Health Protection Hub, making shielding calls, delivering free school meal vouchers and assisting with the business grant process.
- 5.1.9 Assurances have been given by the Senior Manager Team that the level of audit work undertaken in 2021/22 will revert to pre-COVID levels.

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 due before the end of March 2023.
- 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, team meetings and development sessions have taken place. This was particularly important during the pandemic when working from home created new challenges for the Audit Team. Internal Audit have looked to make changes to improve our adherence to the Standards (through completion of Standards self-assessment) and we have investigated and implemented new/alternative ways of service delivery. Audit share best practice with other local authorities and regularly attend local network groups.

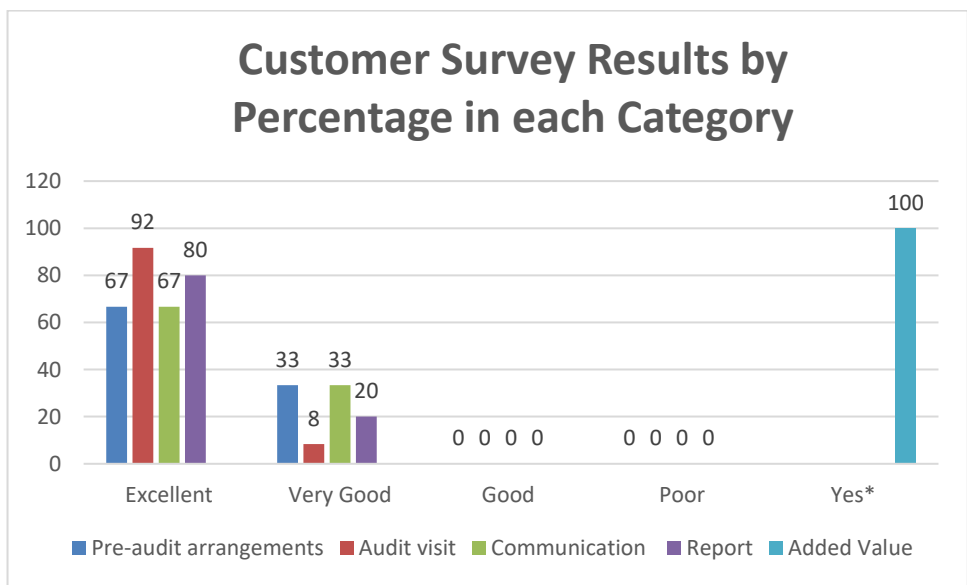
5.4.2 The Audit & Governance Lead Manager and Principal Auditor regularly attend the Local Authority Chief Auditors Network (LACAN). Other members of the team also attend regional Fraud group (when relevant) which assists in identifying best practice and different approaches to audit work and information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

5.5.2 From 2019/20 customer surveys have been issued electronically through Microsoft Forms, therefore comparisons have been made between 19/20 and 20/21. Results for 2020/21 are detailed below:



Results for 2019/20:



* 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 2020/2021. 100% of our customers think we are a positive support and add value to their service area.

It was very pleasing to note that all areas have scored ‘excellent’ or ‘very good’, which is an improvement from 19/20 where 14% of feedback relating to communication was scored as ‘good’.

6 **CONCLUSIONS FOR 2020/21**

- 6.1 Despite diluted audit coverage due to COVID support, Internal Audit have performed well and made a positive contribution to the governance arrangements within the Council. Audit have significantly assisted in managing/mitigating the COVID effect on the Council and/or local community. COVID was the single biggest risk facing the Council in 2020/21 and Internal Audit have played their part in ensuring this risk has been appropriately managed and mitigated.
- 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 and other assurance activity has provided reasonable assurance to the Council on the operation of the Council’s internal controls, governance and risk management processes for the areas reviewed in 2020/21.

- 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 changes occurring both within and outside the Council during 2021/22 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 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 2020/21 was approved by the Committee at the July 2020 meeting (normally agreed at the May meeting but the meeting was deferred due to COVID) and the Internal Audit Charter for 2020/21 was approved by the Committee at the January 2021 meeting.
- 7.1.3 The Audit Annual Update report was provided to the Committee in July 2020 (normally agreed at the May meeting but the meeting was deferred due to COVID)

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 2019/20 was approved at the July 2020 (Normally agreed at the May meeting but the meeting was deferred due to COVID) meeting after consideration of the supporting information. An update on the action plan derived from 2019/20 plan was presented to the committee in January 2021.
- 7.3.2 The January 2021 meeting reviewed the Council's Strategic Risk Register.
- 7.3.3 The 2019/20 Information Governance annual report was presented to the Committee in July 2020 (normally agreed at the May meeting but the meeting was deferred due to COVID).

7.4 Treasury Management

- 7.4.1 The Committee received the 2019/20 outturn and in year updates for 2020/21. The Treasury Management Strategy 2021/22 was reviewed prior to approval by Cabinet.

7.5 Statement of Accounts 2019/20

7.5.1 The Statement of Accounts was approved by the Committee following external audit at the October 2020 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 2019/20 Anti-Fraud & Corruption Annual Report and 2020/21 updated policy was received in July 2020 (normally May but deferred due to COVID).

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 2020/21 and the future 2021/22

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 2021/22. Most notable is the impact of COVID, organisational changes, continued significant reductions in resources and the more commercial approach being adopted by the Council.

8 Internal Audit Plan 2021/22

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 2021. 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, further discussions are being held with ICT to develop audits in this area. A tender exercise will be undertaken to procure IT audit services from an external provider, as in previous years, for the 2021/22 work. The plan has been drawn up based on the internal and external resources available for 2021/22 (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 2021/22 but limited to the areas reviewed.
- 8.5 The planned resources for 2021/22 are 824 days which includes 47 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 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 2021/22. Audit Committee members will be updated throughout the year with any changes to the 2021/22 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	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>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>AL 18/05/2021</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	<p>There are no direct financial implications arising from the recommendations within this report.</p> <p>TAS 18.5.21</p>
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 2021/22 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 2020/2021

Audit Areas	No of Days
AGS and certification	4.38
Additional Dedicated Home-School/ College Transport Grant (2020-21)	2.46
Advice & Consultancy including org change	16.36
Appointee and Deputyship (2020-21)	2.00
Balfour Beatty Contract Review (2020-21)	15.45
Blue Badge Grant (2020-21)	1.41
Building Capacity - Voluntary Sector (2019-20)	5.22
Business Continuity (2020-21)	6.79
CPD Trading Service (2019-20)	1.49
CSE	7.04
Children in Care Health Assessments (2019-20)	1.39
ContrOCC (2019-20)	18.32
Corporate Complaints (2020-21)	16.25
Council Tax / NNDR (2020-21)	33.09
Covid-19 (Work to support other areas)	110.31
Fleet Management process (2019-20)	2.14
Follow ups	15.34
General Ledger (2019-20)	16.16
HR / Payroll (2019-20)	21.09
HR / Payroll (2020-21)	21.55
Housing Benefits (2020-21)	13.03
Ironbridge Gorge Town Council (2020-21)	6.52
John Randall	16.06
Local Authority Compliance & Enforcement Grant (2020-21)	0.90
Local Transport Capital Block Funding grant (2020-21)	2.68
Madeley Town Council (2019-20)	2.33
Madeley Town Council (2020-21)	1.52
NNDR	0.70
Newdale Primary (2020-21)	6.90
Oakengates Town Council (2019-20)	7.32
Pensions (2020-21)	11.73
Purchase Ledger (2019-20)	2.65
Red & Amber Follow up - Ice Rink	1.52
Red & Amber follow up - Muxton Primary	0.41
Red & Amber follow up - The Place theatre	7.70
Sales Ledger (2019-20)	1.69
Section 17 Follow up	3.43
Setting Up Home Grant Follow up	0.92
Setting up Home Grant (2020-21)	18.87
Sir Alexander Fleming	2.22
St Matthews Primary (2019-20)	4.94
St Peters Bratton (2019-20)	2.87

Strengthening Families Grant	3.48
Together4Children (2020-21)	4.82
Treasury (2020-21)	4.49
Woodlands Primary (2019-20)	5.47
apT Planning (2019-20)	5.60

AUDIT COMMITTEE ACTIVITY 2020/21

Area	Activity
Internal Audit	Internal Audit Annual Report 2019/20 Internal update reports of work undertaken throughout the year. Internal Audit Plan 2020/21 Internal Audit Charter for 2021/22 Update on Public Sector Internal Audit Standards Self-Assessment
External Audit	External Audit Fee Letter 2020/21 External Audit Interim Report 2019/20 External Audit Plan 2021/22 External Audit Grants Report External Audit annual audit letter
Governance	Annual Governance Statement (AGS) 2019/20 Half yearly progress on the 2019/20 AGS Action Plan Review of the Strategic Risk Register Information Governance Annual Report 2019/20 Caldicott Guardian Annual Report 2019/20 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 2019/20 Audit Committee Annual Report 2019/20 Report to those charged with Governance 2019/20 update
Treasury Management	Treasury Management Outturn report 2019/20 & 2020/21 update Draft 2021/22 Treasury Management Strategy and update 2020/21 Verbal presentation from Councils Treasury Advisors
Statement of Accounts	Draft Statement of Accounts 2019/20 Audited Annual Statement of Accounts 2019/20
Fraud & Corruption	2019/20 Annual Report on Corporate Anti-Fraud & Corruption Policy and Policy update 2020/21
General	Audit Committee terms of Reference reviewed Annual customer feedback report and assurance on lessons learnt 2019/20