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AUDIT & ACCOUNTS COMMITTEE AGENDA

Date: Friday, 16 September 2022

Time: 10.00 am

Venue: The Dove Room, Moorlands House, Stockwell Street, Leek

8 September 2022

PART 1

1. Apologies for absence
2. Declarations of interest
 - i. Disclosable Pecuniary Interests.
 - ii. Other Interests.
3. Minutes of the previous meeting (**Pages 3 - 8**)
4. Annual Review of the Effectiveness of Internal Audit (**Pages 9 - 26**)
5. Internal Audit Annual report (**Pages 27 - 38**)
6. Internal Audit Progress report (**Pages 39 - 46**)
7. Treasury Management Update (**Pages 47 - 54**)

MARK TRILLO EXECUTIVE DIRECTOR & MONITORING OFFICER

Membership of Audit & Accounts Committee

Councillor J Davies (Chair)	Councillor N Hawkins (Vice-Chair)
Councillor E Fallows	Councillor K J Jackson
Councillor P Jackson	Councillor B Johnson
Councillor K Mills	Councillor P Routledge
Councillor N Yates	Mr H Mawdsley

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STAFFORDSHIRE MOORLANDS DISTRICT COUNCIL

AUDIT & ACCOUNTS COMMITTEE MEETING

Minutes

FRIDAY, 17 JUNE 2022

PRESENT: Councillor J Davies (Chair)

Councillors N Hawkins, K J Jackson and N Yates

IN ATTENDANCE: S Jassal Grant Thornton Engagement Manager
M Green Grant Thornton Key Audit Partner
E Bennetts Finance Business Partner
V Higgins Information Business Partner
J Leak Head of Audit
K Pointon Head of Finance
P Trafford Member & Community Services Officer
M Owen Executive Director for Finance and Customer Services

APOLOGIES: Councillors E Fallows, P Jackson and B Johnson

The Chair welcomed Martin Owen to his first Audit & Accounts Committee meeting.

73 **DECLARATIONS OF INTEREST**

There were no declarations made.

74 **MINUTES OF THE PREVIOUS MEETING**

RESOLVED – That the minutes of the meeting of the Audit & Accounts Committee held on 11 February 2022 be **APPROVED** as a correct record and signed by the Chair.

75 **EXTERNAL AUDIT - AUDIT PLAN**

Key Audit Partner Michael Green introduced the report, confirming the 3 significant risks as previously identified:-

- Presumed risk of management override of controls;
- Valuation of land and buildings;
- Valuation of net pension fund liabilities.

An additional significant risk had been highlighted this year – the cessation of the joint venture with Ascent Housing.

Materiality had been set at £735k (up on the previous year figure of £605k), equating to around 2% of the Council's prior year gross expenditure.

No significant weaknesses had been identified in the Council's arrangements to secure value for money.

The final 2020/21 audit fee had been set at £56,246. An amount of £2,500 had been included for remote working but was to be removed.

Audit & Accounts Committee - 17 June 2022

Grant Thornton was adopting a tranche-based approach, with SMDC being scheduled for later in the year and Martin Owen advised that, whilst this was not ideal, every effort would be made to mitigate the risk of further drift.

Responding to a member query regarding pension deficit, Keith Pointon noted that the triennial valuation of the Pension Fund was due to take place in 2022. At the previous valuation in 2019 the fund was 86% funded, with SMDC contributing £900,000 per annum to the deficit in addition to its normal contributions. It was anticipated that the normal contribution rate was likely to increase as a result of the valuation.

A request was made for a 1-page summary of the Ascent programme to show its overall level of success. Martin Owen agreed to produce the information and to seek specific detail with regard to Your Housing Group's proposals for the £10m loan recently made.

76 RISK MANAGEMENT UPDATE

The Council's Strategic, Operational and Project Risk Registers were reviewed by the Committee on an exception basis. This review was as at March 2022.

- STRATEGIC – 16 risks had been identified and assessed, with no significant changes from the previous review. 8 were rated 'high' and were listed in Appendix A to the report;
- OPERATIONAL – 42 risks, 11 of which were rated 'high' and listed in Appendix B. Newly identified risks were:- a) Escalation of the Arboreal Services risk to high due to the loss of a staff member, and b) 2 new risks added around hyper inflation energy costs (medium) and construction costs / resource availability (high);
- PROJECT – 15 projects covered, 4 of which were rated 'high' and listed in Appendix C. 2 new projects added since the previous review were a) Call Recording in the Contact Centre and b) the Norse joint venture.

RESOLVED – That the Council's risk position and the mitigation / fruition plans contained within the report be **NOTED**.

77 ANNUAL TREASURY MANAGEMENT REPORT

The report allowed the robust scrutiny of the Council's Treasury Management performance in 2021/22 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

Emily Bennetts outlined the following areas to members:-

- The Council's capital expenditure and overall borrowing need during the year;
- Compliance with Prudential Indicators, showing the outturn against those indicators formally adopted in the 2021/22 Treasury Management Strategy Statement;
- A review of the Treasury Management Strategy and the economic environment during the year;
- The Council's borrowing outturn;
- The Council's capital loan (service investment) activity;
- The Council's investment portfolio and performance, including a summary on investments with Environmental and Governance (ESG) positive links.

Audit & Accounts Committee - 17 June 2022

The main headlines included:-

- Capital expenditure in 2021/22 totalled £13million, including a £10million capital loan (service investment – housing) to Your Housing Ltd. Capital expenditure was partly funded via capital receipts, reserves and contributions; the remainder had created a borrowing requirement of £6.3million;
- Total external debt at 31st March 2022 amounted to £12.6million. There was an underspend of £34,600 against borrowing costs;
- £468,075 interest income was earned from the maturing debenture and loan balances held with Ascent Housing LLP and the new capital loan (service investment - housing) to Your Housing Limited. There was an overall shortfall of £54,805 against the budget due to the reduction of the overall loan value and falling interest rates;
- The average daily investment portfolio during 2021/22 was £12.4million invested with a total of nine institutions, yielding £42,825 in investment income. There was a £22,329 surplus against the investment income budget following increases in the Bank of England base rate in quarter 4;
- The average return achieved by the Council on its investment portfolio for the year was 0.20%. Year-end investments totalled £27.3million, all internally managed by the Council's Treasury Management Team.

RESOLVED – That the Annual Treasury Management Report 2021/22 be **RECOMMENDED TO COUNCIL FOR APPROVAL**.

78 **TREASURY MANAGEMENT UPDATE**

The report enabled the robust scrutiny of the Council's Treasury Management performance as at 31 May 2022. The main headlines were:-

- The Bank of England base rate increased from 0.75% to 1.00% in May 2022;
- Due to the subsequent increases in investment interest rates, a surplus of £72,770 was forecast against the investment income interest budget;
- The Council's investment portfolio totalled £23.3million spread across eight separate institutions as at 31st May 2022;
- The capital loan (service investment – housing) was earning £307,000 interest during the year. Borrowing costs of £214,350 to support this were included in the borrowing costs forecast outturn;
- The Council's average external debt was forecast to be £10.6million at an average annual borrowing rate of 1.56%;
- The borrowing costs budget forecasted a total saving of £28,700, split between savings on the MRP charge and interest costs.

RESOLVED – That the Council's Treasury Management position as at 31 May 2022 be **NOTED**.

79 **2021/2022 INTERNAL AUDIT PERIODIC REPORT**

Head of Internal Audit – John Leak – presented the report covering audit performance for the period 1 February 2022 to 31 May 2022, showing the overlap from 2021/22 into 2022/23 caused in part by the ongoing diversion of audit resources to support the corporate response to the administration of the various Government Business Grants Support Schemes and a staff secondment.

9 Audits had been completed, with 2 being given ‘substantial’ assurance, 6 ‘satisfactory’ and 1 ‘limited’. 4 further audits were ongoing. All recommendations had been agreed and 90% of those that were due had been implemented.

Members were concerned with the implementation problems surrounding CCTV coverage. Martin Owen agreed to research the situation and provide members with the number of cameras currently functioning in each location.

RESOLVED – That the report be **NOTED**.

80 **INTERNAL AUDIT CHARTER**

The Accounts and Audit Regulations 2015 required the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Audit Charter provided a framework for the operation of the Internal Audit service and was required by the Public Sector Internal Audit Standards which required the Charter to be approved by the ‘Board’, which for the Council’s purpose was the Audit & Accounts Committee.

It was considered to be good practice to approve the Charter annually when the Audit Plan was done. There were no material changes to the Charter.

RESOLVED – That the Council’s Internal Audit Charter be **APPROVED**.

81 **INTERNAL AUDIT - ANNUAL AUDIT PLAN 2022/2023**

The Public Sector Internal Audit Standards state that the Audit Plan must be based on a documented risk assessment undertaken at least annually and needed to be flexible in response to changes in the Council’s business, risks, operations, programs, systems and controls. Furthermore, the Standards state that the Audit manager must communicate the internal audit activity’s plans and resource requirements to senior management and the Audit Committee for review and approval. The Audit Manager must also communicate the impact of resource limitations. The report addressed those requirements.

The extension of the staff secondment from the Internal Audit team to 31 August 2022 has reduced available audit days. The Audit Plan for 2022/23 was therefore based on a full complement of staff from September onwards and aimed to cover the Council’s key risks and systems.

RESOLVED – That the Council’s annual Internal Audit Plan for 2022/23 be **APPROVED**.

82 **FINANCIAL MANAGEMENT CODE**

Following on from a report to the Committee in June 2021 where areas were identified for improvement, Keith Pointon – Head of Finance – gave a verbal update to confirm that the areas in question had yet to be addressed. The areas included:-

- Financial Procedure Rules – update needed;
- More use of analysis tools regarding financial resilience;
- Consultation regarding budget planning;
- Further use of balance sheet review on larger projects.

There would be a full report on progress in due course.

83 **WORK PROGRAMME**

RESOLVED – That the published Work Programme for 2022/23 be **APPROVED**.

The meeting closed at 11.27 am

_____Chairman_____Date

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STAFFORDSHIRE MOORLANDS DISTRICT COUNCIL

Audit & Accounts Committee

16 September 2022

TITLE:	2021/22 Annual Review of the Effectiveness of Internal Audit
PORTFOLIO HOLDER:	Councillor Michael Worthington – Portfolio Holder for Finance
CONTACT OFFICER:	John Leak - Head of Audit
WARDS INVOLVED:	Non-Specific

Appendices Attached

Appendix 1 - 2021/22 Annual Review of the Effectiveness of Internal Audit – Action Plan

Appendix 2 - Quality Assurance and Improvement Programme (QAIP)

1. Reason for the Report

- 1.1 The Accounts & Audit Regulations 2015 require the Council to, each financial year, conduct a review of the effectiveness of the system of internal control, and that the findings of this review must be considered by a committee or by members of the authority meeting as a whole. An annual review of the effectiveness of Internal Audit to demonstrate conformance with the Public Sector Internal Audit Standards and Local Government Application Note forms part of this review.

2. Recommendation

- 2.1 That the Committee note the annual review of the effectiveness of Internal Audit for 2021/22 including the Quality Assurance and Improvement Programme and that Internal Audit is operating effectively and can be relied upon when considering the Annual Governance Statement for 2021/22.

3. Executive Summary

- 3.1 The purpose of this report is to explain the approach taken to comply with the requirements of the Accounts & Audit Regulations 2015 with regard to the annual review of the effectiveness of the system of internal control, in particular the annual review of the effectiveness of Internal Audit and to present the findings of this review. This requirement was introduced in 2006.
- 3.2 An update of the self-assessment of compliance with the latest PSIAS (March

2017) and Local Government Application Note (LGAN) and Action Plan has been undertaken by the Head of Audit. A Quality Assurance and Improvement Programme (QAIP) has also been produced in accordance with the requirements of the PSIAS.

3.3 In addition to the update of the self-assessment of compliance with the latest PSIAS (March 2017) and Local Government Application Note (LGAN), other qualitative and quantitative factors have been taken into consideration when determining the effectiveness of Internal Audit.

3.4 Overall, the review has shown that Internal Audit is effective and conforms sufficiently with the requirements of PSIAS / LGAN to ensure that the opinion given in the Annual Report can be relied upon for assurance purposes when considering the Annual Governance Statement 2021/22.

4. How this report links to Corporate Priorities

4.1 The assurance provided by the work of Internal Audit informs the Annual Governance Statement and therefore helps to confirm effective use of financial and other resources to ensure value for money.

5. Alternative Options

5.1 There are no options to consider.

ANDREW P STOKES
Chief Executive

Web Links and Background Papers

Public Sector Internal Audit Standards
Local Government Application Note for the United
Kingdom PSIAS
Accounts & Audit Regulations 2015

Contact details

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6. Detail

- 6.1 Paragraph 6[1] of the Accounts and Audit Regulations 2015 state that “a relevant authority must, each financial year, conduct a review of the effectiveness of the system of internal control.” The Regulations go on to state that the findings of this review must be considered by a committee or by members of the authority meeting as a whole. An annual review of the effectiveness of Internal Audit to demonstrate conformance with the Public Sector Internal Audit Standards and Local Government Application Note forms part of this review.
- 6.2 Previous reviews have consisted of a self-assessment of compliance with the current Internal Audit Standards, production of an action plan identifying where full compliance has not been achieved to ensure full compliance with the Standards in future and consideration of other qualitative and quantitative factors when determining the effectiveness of Internal Audit. The Public Sector Internal Audit Standards are the applicable Standards for 2021/22.
- 6.3 It is a requirement of the PSIAS that an external assessment of Internal Audit (EQA) be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. In accordance with this requirement, an EQA was completed during 2016/17 and reported to this committee in July 2017. Due to the diversion of audit resources as a consequence of the pandemic, the next independent external review of Internal Audit has been slightly delayed and will be undertaken during 2022/23.
- 6.4 Accordingly the annual review for 2021/22 consists of the following:
- Update the self-assessment of compliance with the latest PSIAS (March 2017) and Local Government Application Note (LGAN);
 - Update the Action Plan created last year incorporating the external assessment of Internal Audit which highlighted areas of good practice and issues and recommendations to improve the service;
 - Report upon the results of any satisfaction questionnaires and feedback from any external regulators;
 - Report upon any other performance indicators collected in respect of Internal Audit;
- 6.5 The self-assessment of compliance with the PSIAS did not identify any areas of significant non-conformance with the PSIAS / LGAN. For the areas of partial conformance the effectiveness of the service was not considered to be seriously affected, as a small number of areas of partial compliance with PSIAS / LGAN is considered to be acceptable due to local circumstances.
- 6.6 The Action Plan created last year incorporating the external assessment of Internal Audit has been updated and is attached as **Appendix 1**. This action plan identifies some areas in which the service can be further improved and some revisions to the internal audit processes which may be beneficial in terms of improving efficiency and transparency. These issues will be considered and implemented over a period of time where this will result in

improvements to the service.

- 6.7 As part of the requirements of PSIAS, Internal Audit are required to produce a Quality Assurance and Improvement Programme (QAIP). The Councils Internal Audit QAIP was produced based on the Institute of Internal Auditors model template. This followed discussions with colleagues in other Councils who were adopting a similar approach. The QAIP is attached at **Appendix 2** and covers;
- documented working practices;
 - quality control process;
 - performance monitoring;
 - annual review of effectiveness of Internal Audit; and
 - an action plan for improvement of the service.
- 6.8 In addition to the update of the self-assessment of compliance with the latest PSIAS (March 2017) and Local Government Application Note (LGAN), other factors are deemed to be important when trying to determine the effectiveness of Internal Audit. These include both qualitative and quantitative issues, such as:
- Feedback from the External Auditors has been good. External Audit have used our audit reports to help them inform their risk assessment of the financial statement audit.
 - Customer Satisfaction Questionnaires are issued to all managers with the final audit report to establish the effectiveness of the audit review. Based on the questionnaires returned, an average score of 97% has been achieved, indicating that a good service has been provided.
 - During 2021/22, 96% of the Audit Plan was completed.
 - During 2021/22, 37 medium risk recommendations and 118 low risk recommendations were made and agreed with management for implementation.
 - The percentage of recommendations implemented within the timescale agreed with Managers was 75%.
- 6.9 Overall, the review has shown that Internal Audit complies with the expectations of the Public Sector Internal Audit Standards. Internal Audit is therefore effective and conforms sufficiently with the requirements of PSIAS / LGAN to ensure that the opinion given in the Annual Report can be relied upon for assurance purposes when considering the Annual Governance Statement 2021/22.

Staffordshire Moorlands District Council & High Peak Borough Council

2021/22 Annual Review of the Effectiveness of Internal Audit – Action Plan

PSIAS	Finding	Recommendation	Grading	Management Response	Target Date	Responsible Officer
Resources	<p>Internal Audit Customer Satisfaction Questionnaire</p> <p>The service currently issues a 21 point questionnaire to customers following completion of each assignment but only achieves a response rate of about 50%.</p> <p>Whilst the outcome of the questionnaire is generally positive it would be beneficial to consider whether the process might be amended to encourage greater interaction.</p>	<p>The HoIA should consider simplifying the questionnaire to reflect five key questions relating to:</p> <ul style="list-style-type: none"> - Pre-audit engagement - Focus on relevant risks - Progression of the audit - Relevance and timeliness of reporting - Added value experience 	Consider	<p>The current questionnaire that is based on CIPFA best practice will be reviewed to ensure there is a balance between content and response rate.</p>	Ongoing	Head of Audit
	Competency	<p>Internal Audit Planning</p> <p>Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends at present on an assessment devised by internal audit; rather than reflecting wider</p>	<p>a. Audit Plans should be constructed through using an audit needs assessment process which achieves the objectives of the service as set out in the Internal Audit Charter. The audit planning</p>	Review	<p>The current audit needs assessment incorporates strategic risk register mapping. Consideration will be given to incrementally further aligning the process with the Councils risk management approach</p>	Ongoing

PSIAS	Finding	Recommendation	Grading	Management Response	Target Date	Responsible Officer
	<p>risk issues identified by each Council.</p> <p>The analysis uses different definitions of risk impact to those approved within each Council's risk management strategy. This is heavily focused on financial aspects which has a tendency to focus on assignments related to established systems rather than other aspects of the assurance framework that may be more appropriate in terms of independent review.</p>	<p>process should be designed to reflect the assurance needs of each Council through transparent alignment with the Council wide approach to risk management.</p> <p>b. The internal audit planning process should further identify and document other sources of assurance that are available and upon which Councils can place reliance.</p>	Review	<p>where prudent.</p> <p>Consideration will be given to incorporating other sources of assurance into the audit planning process.</p>	Ongoing	Head of Audit
	<p>There should be a direct and identified link between the internal audit plan content discussed with senior management and the Audit Committees and the risk based reasoning for inclusion of the assignment in the audit plan as the plan finally approved should focus on the perceived needs of all parties for independent assurance regarding key policies, procedures, controls and assurances upon which each Council relies.</p>	<p>c. The starting point for the development of the Controls Evaluation Summary is a preliminary discussion with management regarding the inherent and residual risks relevant to the audit area under review. This process could be more robust. It may aid assignment planning, if the management objectives for the area under review were also identified.</p>	Review	<p>There is a longer term aim to align the audit process more closely to risk management. This has to be balanced with other considerations such as local external audit requirements. Audit planning meetings already include discussion of risk registers and management objectives and these will be documented and agreement of control evaluations evidenced. In addition key mitigating controls identified in risk registers are tested to ensure their effectiveness in reducing inherent risk.</p>	Ongoing	Head of Audit
	In turn this should drive the	This should result in the				

PSIAS	Finding	Recommendation	Grading	Management Response	Target Date	Responsible Officer
	<p>preparation of the terms of reference for each assignment.</p> <p>The focus for assignments can therefore be shown to directly relate to the value of the 'control risk' and as a result an opinion based upon the robustness of the controls and assurances available to management and the Council.</p>	<p>formation of a direct link with the Authority's risk register and the key mitigating controls highlighted, thereby aiding the understanding and ability of members of the Audit Committee to contribute to the assurance agenda.</p> <p>Evidence of the agreement by the HoIA and client to the Controls Evaluation Summary should be retained on file.</p>				
<p>Competency</p> <p>Page 15</p>	<p>Internal Audit Manual</p> <p>The internal audit manual has been updated in February 2017 represents a comprehensive record of the practices to be followed by internal audit staff and reflects with the PSIAS.</p> <p>The significant emphasis of the PSIAS reflects the use of a risk based approach to internal audit work and in this respect it is felt that greater alignment with the risk management policies and appetite of the client local authorities would be beneficial.</p>	<p>The internal audit manual should be updated to reflect greater alignment with the risk management policies of the client authorities particularly in relation to the various aspects relating to planning and reporting (grading of recommendations and opinions) that have been identified within the EQA.</p>	<p>Review</p>	<p>The internal audit manual will be updated to reflect any changes implemented as a result of the issues raised in this EQA.</p>	<p>Ongoing</p>	<p>Head of Audit</p>

PSIAS	Finding	Recommendation	Grading	Management Response	Target Date	Responsible Officer
Delivery	<p>Assignment Planning</p> <p>The service currently initiates each audit through engagement with management which provides for creation of a Controls Evaluation Summary; this is then shared with management as a basis for discussion and agreement for commencement of the audit.</p> <p>The assignment is then structured around a framework of expected controls and which is only loosely related to risks which have been considered with management.</p>	<p>Internal audit working papers should focus on major risks to the Council that have been identified and discussed with the auditee; this should include an assessment of the inherent risks in each area (regardless of whether these are specifically recorded with the risk management system).</p> <p>The Controls Evaluation Summary should be constructed based upon the principal inherent risks identified and not expected controls. This will allow the audit to naturally reflect assurance regarding the risks identified within the 'Control Matrix'.</p> <p>The service should also seek to identify and record the other assurances available at an early stage in each assignment as this will aid staff when formulating an overall opinion.</p> <p>An example template is provided at Appendix A.</p>	Review	<p>There is a longer term aim to align the audit process more closely to risk management. This has to be balanced with other considerations such as local external audit requirements. Audit planning meetings already include discussion of risk registers and management objectives and these will be documented and agreement of control evaluations evidenced. In addition key mitigating controls identified in risk registers are tested to ensure their effectiveness in reducing inherent risk. Consideration will be given to incorporating other sources of assurance into the audit planning process.</p>	Ongoing	Head of Audit

PSIAS	Finding	Recommendation	Grading	Management Response	Target Date	Responsible Officer
Delivery	<p>Focus on pre-identified controls</p> <p>Assignments are currently undertaken by reference to controls; there is a tendency for these to reflect KLOE based controls or those from previous audit work rather than be generated to reflect the materiality of the current risk involved.</p> <p>The service has more recently commenced consideration of wider risk aspects relating to the area subject to review.</p>	<p>The use of risk as a basis for the control evaluation summary will allow auditors to focus on the key controls and assurances which reflect the most material control risk to the area under review.</p> <p>The service should continue to develop pre-audit communication with management to focus on significant risk and key controls.</p>	Review	<p>There is a longer term aim to align the audit process more closely to risk management. This has to be balanced with other considerations such as local external audit requirements. Audit planning meetings already include discussion of risk registers and management objectives and these will be documented and agreement of control evaluations evidenced. In addition key mitigating controls identified in risk registers are tested to ensure their effectiveness in reducing inherent risk. Consideration will be given to incorporating other sources of assurance into the audit planning process.</p>	Ongoing	Head of Audit
Delivery	<p>Audit Opinions - Recommendations</p> <p>These are currently developed and assessed by each internal auditor, prior to release of the draft report and which include a grading of the recommendations</p>	<p>a. Risk definitions used by internal audit should be developed to reflect the risk appetite within each organisation, and the definitions of impact and</p>	Review	<p>The current risk definitions have been reviewed to ensure best practice and consistency and are considered appropriate (<i>CIPFA Audit Engagement</i>)</p>	Ongoing	Head of Audit

PSIAS	Finding	Recommendation	Grading	Management Response	Target Date	Responsible Officer
	<p>being made.</p> <p>The basis for grading of recommendations should influence the overall opinion for each audit directly, for example if a risk falling into a definition of the highest impact category is identified (potential for death, loss greater than £500k) then the assurance level given is reduced. Any risk of this nature should automatically trigger a negative audit opinion of 'limited assurance'.</p> <p>Aligning the grading of internal audit recommendations with the impact/likelihood gradings within each Councils risk management system provides a consistent understanding of the relative importance of findings within both the internal audit team and those being audited.</p> <p>At present the service adopts a basis which provides flexibility for the HoIA to determine the grading of the recommendations being made and the overall</p>	<p>likelihood used by the Council. Explanation of the use of these gradings should be included in all reports.</p> <p>It is recognised best practice to use terminology such as High, Medium and Low or Fundamental, Significant and Merits Attention and perhaps support this with RAG rated colours linked to the Council's risk management system.</p> <p>These should be used by each internal auditor to grade the recommendation and discuss the level of risk to which the organisation is exposed with each auditee at the exit meeting.</p> <p>b. Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports; alternatively reflecting on these in discussion at the closure meeting and confirmed in a side letter</p>	Consider	<p><i>Opinions: setting common definitions</i>) Definitions will be reviewed periodically.</p> <p>The current risk definitions have been reviewed to ensure best practice and consistency and are considered appropriate (<i>CIPFA Audit Engagement Opinions: setting common definitions</i>) Definitions will be reviewed periodically.</p>	Ongoing	Head of Audit

PSIAS	Finding	Recommendation	Grading	Management Response	Target Date	Responsible Officer
	opinions. This does however lead to inconsistencies with regard to grading of recommendations and overall assurance opinions being made.	or email to the manager. This would aid the profile of internal audit through concentrating on things that really matter in relation to significant risk as defined within risk management policies.				
Delivery	<p><i>Audit Opinions - Overall opinions</i></p> <p>These are currently based upon the personal judgement of each auditor, within the definitions specified in the following table. These are subject to review by the HoIA prior to release of the draft report.</p> <p>Wider best practice provides for three levels of opinion being substantial, adequate (reasonable) or limited as this provides a clear indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.</p>	<p>The grading of reports should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon.</p> <p>Best practice would reflect:</p> <ul style="list-style-type: none"> - Where a fundamental risk (red) is identified that limited assurance is given. - Where significant risks (amber) are identified then adequate assurance is given, and - Where 'merits attention' (green) risks are identified these are not referred to in the report and substantial assurance is given. 	Review	The current risk definitions and assurance levels have been reviewed to ensure best practice and consistency and are considered appropriate (<i>CIPFA Audit Engagement Opinions: setting common definitions</i>) Definitions and assurance levels will be reviewed periodically.	Ongoing	Head of Audit

PSIAS	Finding	Recommendation	Grading	Management Response	Target Date	Responsible Officer
Delivery	<p>Annual Report</p> <p>The HoIA produces an Annual Internal Audit report which summarises the years work and includes analysis of performance. The opinion reflects a format that takes account of all information and sources of assurance available to the HoIA and therefore reflects upon the assurances provided in each audit supporting the current statement:</p> <p><i>“Based on the work undertaken by Internal Audit during the year and the resultant assurance opinions outlined above, and the implementation by management of the recommendations agreed, and also comments made by our external auditors, Internal Audit can provide reasonable assurance that the Council’s governance arrangements including risk management and systems of internal control were operating adequately and effectively. Where deficiencies in internal control have been identified,</i></p>	<p>In alignment with recommendations made earlier, the internal audit plan should be constructed to provide an explicit link to risk and the other assurances available so that the HoIA is able to provide wider assurance to each Authority in support of the governance statement.</p> <p>Best practice is that the Annual Report should contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised by the range of assurance sources available is essential in order to meet this broader scope.</p>	Consider	The annual report content will be reviewed in line with any changes to the audit planning and engagement processes (see above) and will be in accordance with best practice.	Ongoing	Head of Audit

PSIAS	Finding	Recommendation	Grading	Management Response	Target Date	Responsible Officer
	<p><i>we have been assured that these have been or will be resolved in an appropriate manner and we will continue to monitor such cases”.</i></p> <p>Whilst this reflects a position it could be better structured to meet the requirements of the PSIAS as it:</p> <p><i>‘must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board’.</i></p>					

Recommendation grading	Explanation
Enhance	The internal audit managed service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The Internal audit division should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit division should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

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Staffordshire Moorlands DC & High Peak BC Internal Audit Service Quality Assurance & Improvement Programme

1 Introduction

Internal Audit's Quality Assurance Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders (the Audit Committee, Senior Management, the External Auditor and Operational Managers etc) that Internal Audit:

- Conforms with the Mission of Internal Audit, Definition of Internal Auditing, Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and the Standards;
- Has an adequate Internal Audit Charter, goals, objectives, policies and procedures;
- Contributes to the organisations governance, risk management and control processes;
- Has complete coverage of the audit universe;
- Complies with applicable laws, regulations and other standards that the internal audit activity may be subject to;
- Has identified the risks affecting the operation of the internal audit activity itself;
- Has an effective continuous improvement activity in place and adopts best practice; and
- Adds value to improve the organisations operations and contributes to the attainment of the organisations objectives.

The Head of Audit is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consultancy. The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments must be undertaken at least once every five years.

The QAIP is reviewed on an annual basis.

2 Internal Assessments

Internal Assessments are made up of both ongoing reviews and periodic reviews.

Ongoing reviews

Ongoing reviews provide assurance that the processes in place are working effectively to ensure that quality is delivered on an audit by audit basis. This includes continuous monitoring of:

- Engagement planning and supervision (preapproval of the audit scope, innovative best practices, budgeted hours, and assigned staff);
- Standard working practices (including working paper procedures, sign off, report review, checklists to ensure that the audit process has been followed);
- Feedback from other clients and stakeholders; and
- Analysing performance metrics to measure audit plan completion and stakeholder value.

Periodic reviews

Periodic assessments are designed to assess conformance with Internal Audit's Charter, the Standards, Mission of Internal Audit, Definition of Internal Auditing, Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the quality of the audit work and supervision, policies and procedures supporting the internal audit activity, the added value to the organisation and the achievement of performance standards.

Periodic assessments will be conducted through:

- Working paper reviews for conformance to the definition of Internal Auditing, Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and internal audit policies and procedures;
- Self-assessment of the internal audit activity with objectives established as part of the QAIP components – Governance, Professional Practice and Communication;
- Review of internal audit performance measures and benchmarking of best practices. Periodic activity and performance reporting to the Audit Committee and other stakeholders as deemed necessary.
- Annual self-review of conformance to the PSIAS.

The periodic self assessment should identify the quality of ongoing performance and opportunities for improvement and to check and validate the objectives and criteria used in the QAIP. The self assessment will be completed on an annual basis and the results reported to the Audit Committee and Senior Management.

External Assessment

The External Assessment will consist of a broad scope of coverage that includes the following:

- Conformance with the Standards, the Mission of Internal Audit, Definition of Internal Auditing, Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and Internal Audit's Charter, plans, policies, procedures, practices, and any applicable legislative and regulatory requirements;
- Expectations of Internal Audit as expressed by the Audit Committee and Senior Management;
- Integration of the Internal Audit activity into the governance process;
- The mix of staff knowledge, experiences, and disciplines, including use of tools and techniques, and process improvements; and
- A determination as to whether Internal Audit adds value and improves the Council's operations.

An external assessment will be conducted every five years by a qualified, independent assessor from outside the Council. The assessment will be in the form of a full external assessment, or a self-assessment with independent external validation. The format of the external assessment will be agreed with the Audit Committee and Chief Executive.

Assessment scale

The scale to assess the level of conformance of the internal audit activity with the standards is as follows:

Generally Conforms / Partially Conforms / Does Not Conform
(IIA Quality Assessment Manual Scale)

Reporting on the Quality Program

Internal Assessments – reported to the Audit Committee and Senior Management on an annual basis. The internal assessment report will be accompanied by a written action plan in response to significant findings and recommendations contained in the report.

External Assessments – reported to the Audit Committee and Senior Management. The external assessment report will be accompanied by a written action plan in response to significant findings and recommendations contained in the report.

Follow up – The Head of Audit will implement appropriate follow up actions to ensure that recommendations made in the reports and action plans developed are implemented in a reasonable timeframe.

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STAFFORDSHIRE MOORLANDS DISTRICT COUNCIL

Audit & Accounts Committee

16 September 2022

TITLE:	Internal Audit - Annual Report 2021/22
PORTFOLIO HOLDER:	Councillor Michael Worthington – Portfolio Holder for Finance
CONTACT OFFICER:	John Leak - Head of Audit
WARDS INVOLVED:	Non-Specific

Appendices Attached

Appendix 1 - Year End Information for 2021/22

Appendix 2 - Summary of Assurance Opinions 2021/22

1. Reason for the Report

- 1.1 The Accounts and Audit Regulations 2015 requires the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. In accordance with the Public Sector Internal Audit Standards, the Head of Audit must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

2. Recommendation

- 2.1 That the Committee note the Audit Service’s 2021/22 year end performance information contained within this report.
- 2.2 That the Committee note the opinion on the overall adequacy and effectiveness of the Council’s internal control environment.

3. Executive Summary

- 3.1 The purpose of this report is to summarise year end performance information for financial year 2021/22. This includes a breakdown of audits undertaken and completed to date, the number and classification of recommendations made, agreed and where applicable, implemented by management, external review results, developments in the service and an assessment of the Council’s internal control environment.
- 3.2 The strategic audit plan covered the period 1st April 2021 to 31st March 2022

and the year-end performance information referred to above is outlined in the detailed part of this report. Due to the diversion of audit resources to support the corporate response to the administration of the various Government business grants support schemes and a staff secondment, the Audit Plan for 2021/22 was amended during the year and took longer than usual to complete.

- 3.3 All audit recommendations have been agreed, and to date 75% of 2021/22 audit recommendations that are due have been implemented. Where deficiencies in internal control have been identified and not corrected, Internal Audit are satisfied that they will be resolved in an appropriate manner and they will continue to monitor such cases.
- 3.4 Internal Audit can provide reasonable assurance that the Council's governance arrangements including risk management and systems of internal control were operating adequately and effectively.

4. How this report links to Corporate Priorities

- 4.1 The assurance provided by the work of Internal Audit informs the Annual Governance Statement and therefore helps to confirm effective use of financial and other resources to ensure value for money.

5. Alternative Options

- 5.1 There are no options to consider.

ANDREW P STOKES
Chief Executive

**Web Links and
Background Papers**
None

Contact details

John Leak
Head of Audit
john.leak@staffs Moorlands.gov.uk

6. Detail

6.1 Introduction

6.1.1 The purpose of this report is to summarise year-end performance information for the Council's Internal Audit service for the 2021/22 financial year.

6.1.2 The work of the internal audit service is primarily based upon the annual audit plan, which for the financial year 2021/22 was agreed by this committee on 25th June 2021. The internal audit service also carry out work outside of the audit plan for which a contingency is built in. This unplanned work consists mainly of consultancy work and special investigations into suspected fraud and irregularity.

6.2 Progress against Audit Plan

6.2.1 Considerable audit resource was diverted throughout 2021/22 to support the corporate response to the administration of the various Government business grants support schemes. In addition audit resources were further reduced from December 2021 due to a staff secondment. As a direct consequence of this, the 2021/22 Audit Plan was amended to take into account the reduction in available audit days and as a result the Audit Plan took longer than usual to complete.

6.2.2 Key information for both 2021/22 and the previous financial year for comparison purposes is summarised in the following table, including unplanned work unless otherwise stated.:

Summary Year End Information for 2021/22		2020/21
Percentage of Audit Plan completed (performance against annual plan)	96%	86%
Number of recommendations made	155	129
Percentage of recommendations agreed with Service Managers	100%	100%
Percentage of recommendations due implemented within agreed timescale	75%	93%

6.2.3 In order to put this into context, completion of 96% of the audit plan represents one planned audit that was not completed. This audit has been included within the 2022/23 audit plan.

6.2.4 A further breakdown of the audits completed is detailed in **Appendix 1**. Should recommendations have not been agreed, compensating controls exist or service managers have accepted the risk / inefficiency of the current system for the benefit of service delivery. However, all audit recommendations have been agreed.

6.2.5 Councillors will note that in addition to every individual audit recommendation being allocated a risk and class, every audit completed has been given an 'assurance opinion' based upon Internal Audit's assessment of the internal control environment. These assurance opinions inform the annual audit opinion on the overall adequacy and effectiveness of the Council's internal control environment. The control levels are defined as follows:

Control Level	Definition
Substantial	There is a robust framework of controls designed to achieve the objectives and controls are consistently applied.
Satisfactory	There is a sufficient framework of controls which for the most part, are consistently applied. However, weakness in the design or inconsistent application of controls within a few areas put achievement of particular objectives at risk.
Limited	Weaknesses in the system or the level of non compliance with controls in a number of areas are such to put the system objectives at risk.
Unsatisfactory	There is a significant breakdown in the framework of controls, which leaves the system open to significant abuse or error.

6.2.6 To date 75% of all 2021/22 audit recommendations that are due have been implemented. Where deficiencies in internal control have been identified and not corrected, the Head of Audit is satisfied that they will be resolved in an appropriate manner and he will continue to monitor such cases. However, it should be noted that it is the responsibility of relevant Managers to implement agreed recommendations.

6.3 Effectiveness of Internal Audit

6.3.1 The Internal Audit Service has a quality control system in place to ensure that the outputs of the work of the Service are robust, consistent, factual, accurate, complete and well referenced and presented. This system consists of peer review and management review of all audit working papers and reports before audit reports are released in draft form, discussed with management and agreed final versions formally issued.

6.3.2 In accordance with the Accounts & Audit Regulations 2015, which required the Council to, each financial year, conduct a review of the effectiveness of the system of internal control, and that the findings of this review must be considered by a committee or by members of the authority meeting as a whole, a self-assessment to determine compliance with the Public Sector Internal Audit Standards (PSIAS) has been undertaken as part of the Quality Assurance and Improvement Programme.

6.3.3 The most recent independent external quality review undertaken in 2016/17 concluded that the internal audit provision within the Council complies with the expectations of the Public Sector Internal Audit Standards. Internal Audit is therefore effective and conforms sufficiently with the requirements of PSIAS / LGAN to ensure that the opinion given in this Annual Report can be relied upon for assurance purposes.

6.3.4 Due to the diversion of audit resources highlighted in paragraph 6.2.1 which were a consequence of the pandemic, the independent external review of Internal Audit has been slightly delayed and will be undertaken during 2022/23.

6.4 External Review

6.4.1 In addition to the requirements of the Section 151 Officer, the Internal Audit Service has a duty to satisfy the requirements of the Council's external auditor.

6.4.2 External Audit have used our audit reports to help them inform their risk assessment of the financial statement audit.

6.5 Developments During 2021/22

6.5.1 During 2021/22, the Audit Service has carried out the following:

- Implemented the annual risk based audit plan in accordance with the Public Sector Internal Audit Standards ;
- Carried out and issued agreed audit reports for 23 Service areas;
- Stated an 'assurance opinion' for each audit completed, based upon Internal Audit's assessment of the internal control environment;
- Contributed to the development of the Audit and Accounts Committee through regular reports;
- Delivered an annual internal audit opinion for 2020/21 in accordance with the Public Sector Internal Audit Standards providing reasonable assurance that the systems of internal control were operating adequately and effectively;
- Endorsed a satisfactory Annual Governance Statement with the Council's 2020/21 Statement of Accounts;
- Approval of updated Alliance wide Counter Fraud and Corruption Strategy;
- Approval of updated Alliance wide Whistleblowing Policy;
- Approval of updated Alliance wide Policy and Procedures governing the use of the Regulation of Investigatory Powers Act 2000.

6.6 Developments for 2022/23

6.6.1 In 2022/23 the work of the service will again be driven by the regulatory requirements of local government finance and the corporate and operational risks facing the Council. The Audit Service is a joint service with High Peak BC as part of the strategic alliance and will continue to operate and improve joint working practices. The Service is committed to a culture of continuous improvement and will strive to continue adding value to Council services through regular audits and close liaison with Heads of Service, improving internal control systems and the efficiency, economy and effectiveness of their services.

6.6.2 The main areas of work during 2022/23 will be: -

- Agreeing working arrangements with the External Auditors and in accordance with the Public Sector Internal Audit Standards;
- Ensuring the Audit Service continues to operate in accordance with the Public Sector Internal Audit Standards by undertaking a gap analysis and preparing and implementing an action plan if appropriate;
- Continuing to develop the joint Audit Service by reviewing and implementing where appropriate the recommendations of the independent external quality review of the service;
- Reviewing and preparing the annual Audit Plan for 2022/23;
- Completing the Audit Plan in accordance with locally developed performance indicators;
- Planning for and complying with external audit requirements;
- Maintaining robust procedures for monitoring and reporting the implementation of audit recommendations ;
- Reviewing and if appropriate updating corporate policies ;
- Developing and continuing close working relationships within Derbyshire and Staffordshire;
- Distributing audit reports promptly;
- Identifying value for money recommendations and agreeing action with clients;
- Ensuring that all high risk audit recommendations are agreed and actioned immediately;
- Maintaining and improving client satisfaction levels;
- Engaging the services of an ICT audit specialist where required;
- Engaging a suitably qualified provider to undertake an external quality assessment in accordance with PSIAS.

6.7 Assessment of the Council's Internal Control Environment

- 6.7.1 In accordance with the Public Sector Internal Audit Standards, the Head of Audit must deliver an annual internal audit opinion which must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. Internal Audit can therefore only provide reasonable and not absolute assurance of adequacy and effectiveness.
- 6.7.2 As previously detailed in paragraph 6.2.5 above, every audit completed has been given an 'assurance opinion' based upon Internal Audit's assessment of the internal control environment. These assurance opinions inform the annual audit opinion on the overall adequacy and effectiveness of the Council's internal control environment. During the financial year 2021/22 the following opinions were given by Internal Audit (see **Appendix 2** for breakdown):
- 3 service areas had controls within the system to provide **substantial assurance** that risks material to the achievement of the systems objectives are adequately managed;
 - 19 service areas had controls within the system to provide **satisfactory assurance** that risks material to the achievement of the systems objectives are adequately managed;

- 1 service area had controls within the system to provide **limited assurance** that risks material to the achievement of the systems objectives are adequately managed;
- 0 service areas had controls within the system to provide **unsatisfactory assurance** that risks material to the achievement of the systems objectives are adequately managed.

6.7.3 Based on the work undertaken by Internal Audit during the year and the resultant assurance opinions outlined above, and the implementation by management of the recommendations agreed, and also comments made by our external auditors, **Internal Audit can provide reasonable assurance that the Council's governance arrangements including risk management and systems of internal control were operating adequately and effectively.** Where deficiencies in internal control have been identified, we have been assured that these have been or will be resolved in an appropriate manner and we will continue to monitor such cases.

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STAFFORDSHIRE MOORLANDS DISTRICT COUNCIL INTERNAL AUDIT – YEAR END INFORMATION FOR 2021/22

AUDIT	TOTAL RECOMMENDATIONS		HIGH RISK RECOMMENDATIONS			MEDIUM RISK RECOMMENDATIONS			LOW RISK RECOMMENDATIONS			ASSURANCE OPINION / COMMENTS	
	Regulatory	Added value	Agreed / (Not Agreed)	Due to date	Actioned to date	Agreed / (Not Agreed)	Due to date	Actioned to date	Agreed / (Not Agreed)	Due to date	Actioned to date		
Housing Agency	8	1	0	0	0	5	5	5	4	4	4	Satisfactory	
Safeguarding	4	0	0	0	0	0	0	0	4	4	4	Satisfactory	
AES Contract Management	3	0	0	0	0	2	2	2	1	1	1	Satisfactory	
Commercial Properties	12	0	0	0	0	1	0	0	11	4	3	Satisfactory	
Data Protection/GDPR	16	0	0	0	0	3	3	2	13	9	9	Satisfactory	
Land Charges	3	0	0	0	0	0	0	0	3	1	0	Satisfactory	
Human Resources	13	3	0	0	0	1	1	1	15	15	11	Satisfactory	
Cemeteries	9	0	0	0	0	1	0	0	8	1	1	Satisfactory	
Licensing	5	0	0	0	0	0	0	0	5	1	1	Satisfactory	
ICT Asset Management	10	0	0	0	0	3	3	3	7	7	1	Satisfactory	
Strategic Partnerships	8	1	0	0	0	3	3	0	6	0	0	Satisfactory	
Building Control Partnership	12	0	0	0	0	6	2	2	6	1	1	Limited	
CivicaPay	2	2	0	0	0	1	0	0	3	0	0	Satisfactory	
Sundry Debtors	1	0	0	0	0	0	0	0	1	1	0	Substantial	
Budgetary Control	0	0	0	0	0	0	0	0	0	0	0	Substantial	
Treasury Management	2	0	0	0	0	1	1	0	1	0	0	Satisfactory	
Council Tax	3	0	0	0	0	2	0	0	1	0	0	Satisfactory	
NNDR	5	1	0	0	0	1	0	0	5	2	2	Satisfactory	
Creditor Payments	8	1	0	0	0	3	0	0	6	0	0	Satisfactory	
Housing Benefits	13	0	0	0	0	2	0	0	11	1	1	Satisfactory	
General Ledger	1	0	0	0	0	0	0	0	1	0	0	Substantial	
Recovery	4	0	0	0	0	1	0	0	3	0	0	Satisfactory	
Payroll	4	0	0	0	0	1	0	0	3	0	0	Satisfactory	
TOTAL RECOMMENDATIONS	155	0				37				118			
ACTION TAKEN TO DATE			0	0			20	15			52	39	

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Key: Risk		Class
High	Significant control weakness / inefficiency exists with a high likelihood of occurring, potentially causing a breach of legislation / legal requirements and/or a substantial loss or damage to Council assets, information and reputation. Considered essential to implement recommendation promptly.	Regulatory To ensure the integrity of internal controls and/or compliance with Regulations / Policies and Procedures.
Medium	Control weakness / inefficiency exists with a moderate likelihood of occurring, potentially causing a breach of organisational policies and procedures, loss or damage to Council assets, information and reputation. Considered essential to implement recommendation to ensure adequate system controls / necessary improvement in service provision.	Added Value Intended as an enhancement to the existing system which may provide a benefit to either the user or the customer.
Low	Minor control weakness / inefficiency exists with a minimal impact on the Council assets, information and reputation. Considered necessary to implement recommendation to provide management with additional assurance regarding the adequacy of system controls / improvement in service provision.	

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STAFFORDSHIRE MOORLANDS D.C. INTERNAL AUDIT

SUMMARY OF ASSURANCE OPINIONS 2021/22

SUBSTANTIAL ASSURANCE	SATISFACTORY ASSURANCE
Budgetary Control	AES Contract Management
General Ledger	Cemeteries
Sundry Debtors	CivicaPay
	Commercial Properties
	Council Tax
	Creditor Payments
	Data Protection/GDPR
	Housing Agency
	Housing Benefits
	Human Resources
	ICT Asset Management
	Land Charges
	Licensing
	NNDR
	Payroll
	Recovery
	Safeguarding
	Strategic Partnerships
	Treasury Management
LIMITED ASSURANCE	UNSATISFACTORY ASSURANCE
Building Control Partnership	

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STAFFORDSHIRE MOORLANDS DISTRICT COUNCIL

Audit & Accounts Committee

16 September 2022

TITLE:	2021/22 Internal Audit Periodic Report June 2022 to August 2022
PORTFOLIO HOLDER:	Councillor Michael Worthington – Portfolio Holder for Finance
CONTACT OFFICER:	John Leak - Head of Audit
WARDS INVOLVED:	Non-Specific

Appendices Attached

Appendix 1 - Audits Completed – 2021/22 Audit Plan

1. Reason for the Report

- 1.1 The Accounts and Audit Regulations 2015 requires the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. In accordance with the Public Sector Internal Audit Standards, the Head of Audit must report periodically to the Audit Committee on the internal audit activity’s performance relative to its plan.

2. Recommendation

- 2.1 That the Committee note the information contained within this report.

3. Executive Summary

- 3.1 The purpose of this report is to summarise the findings of the remaining audits undertaken by the Council’s Internal Audit service for the 2021/22 financial year. This includes the number and classification of recommendations made, agreed and where applicable, implemented by management.
- 3.2 Due to the diversion of audit resources to support the corporate response to the administration of the various Government business grants support schemes and a staff secondment, the Audit Plan for 2021/22 was amended during the year and took longer than usual to complete.

3.3 All audit recommendations have been agreed, and to date 75% of 2021/22 audit recommendations that are due have been implemented. Where deficiencies in internal control have been identified and not corrected, Internal Audit are satisfied that they will be resolved in an appropriate manner and they will continue to monitor such cases. It should be noted that it is the responsibility of relevant managers to implement agreed recommendations.

4. How this report links to Corporate Priorities

4.1 The assurance provided by the work of Internal Audit informs the Annual Governance Statement and therefore helps to confirm effective use of financial and other resources to ensure value for money.

5. Alternative Options

5.1 There are no options to consider.

ANDREW P STOKES
Chief Executive

**Web Links and
Background Papers**
None

Contact details

John Leak
Head of Audit
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6. Detail

6.1 Introduction

- 6.1.1 The purpose of this report is to summarise the findings of the remaining audits undertaken by the Council's Internal Audit service for the 2021/22 financial year. This includes the number and classification of recommendations made, agreed and where applicable, implemented by management.
- 6.1.2 The work of the internal audit service is primarily based upon an annual risk assessed audit plan, which for the financial year 2021/22 was agreed by this Committee at the 25th June 2021 meeting. The Internal Audit service also carry out work outside of the audit plan for which a contingency is usually built in. This unplanned work consists mainly of internal control consultancy work and special investigations into suspected fraud and irregularity.
- 6.1.3 Due to the diversion of audit resources to support the corporate response to the administration of the various Government business grants support schemes and a staff secondment, the Audit Plan for 2021/22 was amended during the year and took longer than usual to complete.

6.2 Audit Reports Issued

- 6.2.1 A summary of the remaining audits completed from the 2021/22 Audit Plan is shown in the table below. Further details of these audits outlining key issues and strengths and improvements are shown in **Appendix 1**.

Service	Audit	Recommendations			Assurance
		High Risk	Medium Risk	Low Risk	
Finance	Creditor Payments	0	3	6	Satisfactory
Revenues & Benefits	Housing Benefits	0	2	11	Satisfactory
Customer Services	CivicaPay	0	1	3	Satisfactory
Finance	Payroll	0	1	3	Satisfactory

- 6.2.2 A further breakdown of all of the audits completed during the 2021/22 financial year including the current status of audit recommendations is detailed in the Annual Report later on this agenda. All audit recommendations have been agreed, and to date 75% of 2021/22 audit recommendations that are due have been implemented. Where deficiencies in internal control have been identified and not corrected, Internal Audit are satisfied that they will be resolved in an appropriate manner and they will continue to monitor such cases. It should be noted that it is the responsibility of relevant Managers to implement agreed recommendations.

6.2.3 Councillors will note that in addition to every individual audit recommendation being allocated a risk, every audit completed has been given an ‘assurance opinion’ based upon Internal Audit’s assessment of the internal control environment. These assurance opinions inform the annual audit opinion on the overall adequacy and effectiveness of the Council’s internal control environment. The control levels are defined as follows:

Control Level	Definition
Substantial	There is a robust framework of controls designed to achieve the objectives and controls are consistently applied.
Satisfactory	There is a sufficient framework of controls which for the most part, are consistently applied. However, weakness in the design or inconsistent application of controls within a few areas put achievement of particular objectives at risk.
Limited	Weaknesses in the system or the level of non-compliance with controls in a number of areas are such to put the system objectives at risk.
Unsatisfactory	There is a significant breakdown in the framework of controls, which leaves the system open to significant abuse or error.

AUDITS COMPLETED - 2021/22 AUDIT PLAN

Creditor Payments

Assurance Level

Assurance: SATISFACTORY

It is our opinion that controls currently in place within the system provide satisfactory assurance that risks material to the achievement of the systems objectives outlined in the Scope and Objectives section of this report are adequately managed.

Key Findings

Key Issues	Strengths and Improvements
<ul style="list-style-type: none"> • A review of the current procedure in place for authorisation of purchase card spend should be carried out to ensure that authorisations are carried out in accordance with the Financial Procedure Rules and the Procurement Procedure Rules. • All Bankline payments should receive the appropriate authorisation from the relevant officer, in accordance with the authorised signatory listing and Financial Regulations and Procedure Rule D3.1. • Controls should be implemented to ensure that duplicate payments cannot be made via the Creditors system. 	<ul style="list-style-type: none"> • Payments made via the purchase ledger are regularly reconciled to the Creditors control account. • From a sample of invoices reviewed, all had been promptly paid and coded to the correct budget code.

Summary of Recommendations

An analysis of the recommendations categorised by risk and classification (regulatory or added value) is shown below:

Description	High		Medium		Low	
	R	A	R	A	R	A
Purchase Cards			1		2	
Bankline			1			
Payment Processing			1		2	
Cheques					1	1
Total			3		5	1

Housing Benefits

Assurance Level

Assurance: SATISFACTORY

It is our opinion that controls currently in place within the system provide satisfactory assurance that risks material to the achievement of the systems objectives outlined in the Scope and Objectives section of this report are adequately managed.

Key Findings

Key Issues	Strengths and Improvements
<ul style="list-style-type: none"> The reasons for accepting a request to backdate benefit should be adequately recorded and attached to each claim. The 5% management check of claims processed should be reintroduced with retrospective checks undertaken on claims processed since June 2021. 	<ul style="list-style-type: none"> The Civica portal has been introduced which ensures that all related documents are transferred through to the relevant claim on the Civica system. Reconciliations with the Housing Rents and Council Tax systems are regularly undertaken. Adequate documentation was found and checks undertaken in relation to Test & Trace Support Payments.

Summary of Recommendations

An analysis of the recommendations categorised by risk and classification (regulatory or added value) is shown below:

Description	High		Medium		Low	
	R	A	R	A	R	A
Information Asset Register					1	
Performance Monitoring					3	
Claim Processing					2	
Backdated Claims			1			
Management Checks			1			
Bacs Transmissions					1	
Document Retention					1	
Recovery of Overpayments					2	
System Access					1	
Total			2		11	

Civica Pay

Assurance Level

Assurance: SATISFACTORY

It is our opinion that controls currently in place within the system provide satisfactory assurance that risks material to the achievement of the systems objectives outlined in the Scope and Objectives section of this report are adequately managed.

Key Findings

Key Issues	Strengths and Improvements
<ul style="list-style-type: none"> System administrators should receive appropriate training to ensure that system access can be regularly reviewed and that individual user access levels remain appropriate to the role. 	<ul style="list-style-type: none"> The initial phase of the Civica Pay implementation has been satisfactorily completed in accordance with the Alliance Project Management Methodology.

Summary of Recommendations

An analysis of the recommendations categorised by risk and classification (regulatory or added value) is shown below:

Description	High		Medium		Low	
	R	A	R	A	R	A
Payment Methods					1	1
Customer Feedback						1
System Access			1			
Total			1		1	2

Payroll

Assurance Level

Assurance: SATISFACTORY

It is our opinion that controls currently in place within the system provide satisfactory assurance that risks material to the achievement of the systems objectives outlined in the Scope and Objectives section of this report are adequately managed.

Key Findings

Key Issues	Strengths and Improvements
<ul style="list-style-type: none"> The retrospective authorisation procedure for the monthly staff payroll and vendor payments should be reviewed to ensure that appropriate authorisation is sought for all relevant payments in a timely manner, and in accordance with the authorised signatory listing. 	<ul style="list-style-type: none"> All payroll amendments are reviewed by the Payroll Officer prior to the processing of the monthly payroll. Payroll data is reconciled monthly by a member of Finance staff, independent of the Payroll Section. Any changes to individual salaries from the previous month are reviewed as part of this process.

Summary of Recommendations

An analysis of the recommendations categorised by risk and classification (regulatory or added value) is shown below:

Description	High		Medium		Low	
	R	A	R	A	R	A
MyView Payroll System					2	
Authorisations			1		1	
Total			1		3	

STAFFORDSHIRE MOORLANDS DISTRICT COUNCIL

Audit & Accounts Committee

16 September 2022

TITLE:	Treasury Management Update
PORTFOLIO HOLDER:	Cllr Worthington – Portfolio holder for Finance
CONTACT OFFICER:	Keith Pointon – Head of Finance Emily Bennetts – Principal Finance Officer
WARDS INVOLVED:	Non-specific

Appendices Attached – Appendix A – Treasury Management Update Report to 31st August 2022

1. Reason for the Report

- 1.1. The purpose of the report is to allow the robust scrutiny of the Council's Treasury Management performance in 2022/23 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and generally accepted good practice.

2. Recommendation

- 2.1. That Members note the current Treasury Management position as at 31st August 2022.

3. Executive Summary

- 3.1. This report is delivered in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management, which recommends that members be updated on treasury management activities regularly (annual, mid-year and quarterly reports).

- 3.2. This report comprises the following:

- The latest interest rate forecast;
- The current investment portfolio and investment income projected for the year;
- The capital loan (service investment – housing);
- Projected borrowing requirements to support the capital programme with associated borrowing costs for the year; and
- Compliance against prudential and treasury indicators set in the Treasury Management Strategy 2022/23.

3.3. The main headlines are:

- The Bank of England base rate increased from 0.75% to 1.00% in May 2022; to 1.25% in June; and again to 1.75% in August.
- Due to the subsequent increases in investment interest rates, a surplus of £166,000 is forecast against the investment income interest budget.
- The Council's investment portfolio totalled £21.9million spread across eight separate institutions as at 31st August 2022.
- The capital loan (service investment – housing) is earning £307,000 interest during the year. Borrowing costs of £214,350 to support this are included in the borrowing costs forecast outturn.
- The Council's average external debt is forecast to be £10.6million at an average annual borrowing rate of 1.80%.
- The borrowing costs budget is forecast to be on target pending external borrowing decisions.

4. How this report links to Corporate Priorities

- 4.1. An effective Treasury Management function is critical in safeguarding and effectively managing the financial resources at the Council's disposal. Sufficient financial resources are required to deliver and underpin all of the Council's main priorities.

5. Alternative Options

- 5.1. This report sets out the Treasury Management position for Staffordshire Moorlands District Council for 2022/23 to date and the projected outturn. As such it is a statement of fact and there are no options.

Martin Owen
Executive Director (Finance & Customer Services)

Web Links and Background Papers

'Treasury Management Strategy
Statement 2022/23' (Audit & Accounts
Committee February 2022)

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Treasury Management Update 31st August 2022

1. Introduction
2. Economic Forecast – Interest Rates
3. Investment Activity & Performance
4. Capital loan (service investment – housing)
5. Borrowing Position
6. Prudential Indicators

1. Introduction

- 1.1. Treasury Management is defined as “The management of the Authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- 1.2. This report is delivered in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management, which recommends that members be updated on treasury management activities regularly (annual, mid-year and quarterly reports).
- 1.3. The Audit & Accounts Committee has delegated responsibility for scrutinising the treasury function. The Committee’s role includes approval of the annual treasury management strategy and scrutiny of operational treasury management reports. Decisions taken by the Audit & Accounts Committee are reported to full Council.
- 1.4. The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by Council on 23rd February 2022. This report details treasury management performance up to the 31st August 2022 and projects forward for the remainder of the financial year.

2. Economic Forecast – Interest Rates

- 2.1. The Council’s treasury advisers, Link Asset Services (‘Link’), most recently provided their latest base rate and PWLB (Public Works Loan Board) forecast on 9th August:

%	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Bank Rate	2.25	2.50	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.00
5yr PWLB rate	2.80	3.00	3.10	3.10	3.00	3.00	2.90	2.90	2.80	2.80	2.80	2.70	2.70
10r PWLB rate	3.00	3.20	3.30	3.30	3.20	3.10	3.10	3.00	3.00	3.00	2.90	2.90	2.80

- 2.2. The Bank of England base rate has increased several times in quick succession throughout the year so far: to 1.00% on 5th May 2022 (from 0.75% previously); then again to 1.25% on 16th June; and to 1.75% on 4th August. The medium term forecast from Link shows continuing rises throughout 2022 and into 2023, peaking at 2.75%, with a reduction back to 2.00% by September 2025. The forecast is being constantly reviewed by Link during the year due to the extreme volatility in the current climate with so many outside influences impacting decisions of the Monetary Policy Committee in setting interest rates.
- 2.3. The Council’s investment income budget was set against a much more modest forecast with base rate only reaching 0.75% by the end of 2022/23, therefore it is likely there will be significant surpluses achieved against the budget.

2.4. Forecast PWLB rates are also greater than were anticipated at budget setting and the Local Authority market will be impacted by all these factors plus the levels of liquidity in the market which may be returning to more normal trends as the levels of grant cash flowing through Councils from central government to businesses and residents potentially reduce.

3. Investment Activity & Performance

3.1. The Council has budgeted to receive £79,390 in investment income in 2022/23, based on the modest interest rate rise forecast as described above. Following the quick pace of the Bank of England base rate rises and the consequent improved investment opportunities, a surplus of c.£166,000 is forecast against the budget.

3.2. The Council manages its investments in-house and invests with financial institutions meeting the Council's approved lending criteria as detailed in the Treasury Management Strategy for the year; and investment priorities of Security of Capital, Liquidity and Yield (SLY). The Council's investment portfolio at 31st August totalled £21,938,000:

Counterparty	Country of Domicile	Amount	Interest rate at end of period	Maturity period	Link counterparty limit
Standard Chartered	UK	£4,500,000	1.43-2.32%	179 to 184 days	6 months
Santander	UK	£4,500,000	1.01-1.13%	95-180 days (on notice)	6 months
Money Market Funds	UK	£2,950,000	c.1.70%	instant access	12 months
Handelsbanken	UK	£2,500,000	1.05%	instant access	12 months
Lloyds Bank Certificate of Deposit	UK	£2,000,000	1.99-2.18%	122-183 days	6 months
NatWest Bank	UK	£1,988,000	0.10%	instant access	12 months
Barclays	UK	£1,500,000	1.75-1.80%	65-95 days	6 months
NatWest Bank Certificate of Deposit	UK	£1,000,000	1.30%	184 days	12 months
Nationwide Building Society	UK	£1,000,000	1.63%	153 days	6 months
Total		£21,938,000			
ESG proportion of portfolio	27.35%	£6,000,000			
Barclays	<i>Linked to Barclays' Green Bond Purchasing Programme which covers 'a variety of thematic projects including energy efficiency, renewable energy, green transport, sustainable food, agriculture and forestry, waste management and greenhouse gas emission reduction'.</i>				

Standard Chartered	<i>Standard Chartered operate this product under their 'Green and Sustainable Product Framework', which includes 'No poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; partnerships for the goals'.</i>
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3.3. Average investment performance from this activity is shown in the table:

Investment return	Q1 Apr-Jun	Est. Total Apr-Aug
>364 days	-	-
<364 days	0.83%	1.87%
instant access	0.64%	1.01%
Total	0.76%	1.58%
<i>Bank of England base rate at start of period</i>	0.75%	0.75%
<i>Bank of England base rate at end of period</i>	1.25%	1.75%

4. Capital loan (Service investment – Housing)

4.1. There is a capital loan (service investment – housing) of £10million to Your Housing Limited to support the maintenance of and provision of affordable housing within the Staffordshire Moorlands District. The loan has a maturity of 10 years (due February 2032). Interest is chargeable at 3.07% (including a 0.80% risk premium), therefore £307,000 is receivable in the year. This is a small shortfall of £1,000 against the budget. Borrowing costs of £214,350 to support this are included in the borrowing costs forecast outturn below.

5. Borrowing Position

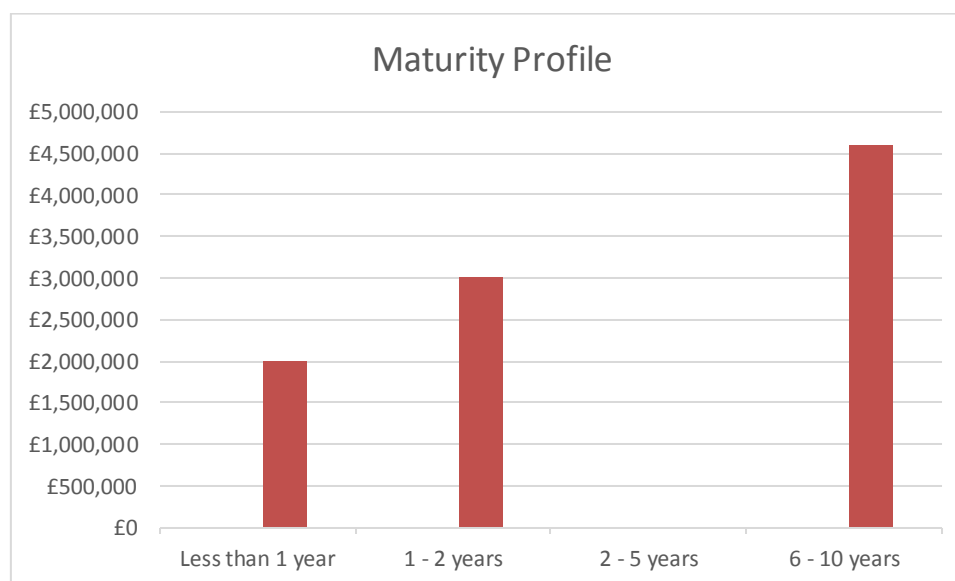
5.1. In accordance with the Local Government Act 2003, it is a statutory duty of the Council to determine and keep under review how much it can afford to borrow. Therefore, the Council establishes 'affordable borrowing limits' as part of the prudential indicators within the approved Treasury Management Strategy Statement.

5.2. The Council's external borrowing at the start of the year was £12.6million. £1.5million local authority borrowing has matured in May and £1.5m in July. A further £2million is due to mature in October. The current forecast includes new borrowing of £2.5million mid-year to support the general fund underlying borrowing need.

5.3. This and any refinancing will be kept under review during the year as the capital

programme is carried out, alongside views about cash flow and interest rate changes.

- 5.4. Average borrowing during the year is anticipated to be £10.6million with interest at 1.80%. Overall borrowing costs are currently forecast to be on target against the borrowing cost budget of £407,310, however this is subject to change depending on when external borrowing takes place and the interest rate at the time.
- 5.5. The 'operational boundary' (£28,408,000) and 'authorised limit' (£29,908,000) indicators govern the maximum level of external borrowing to fund the capital programme, plus any short-term liquidity requirements. They were set through the Treasury Management Strategy Statement to account for the general fund borrowing requirement; an allowance for borrowing to cover short-term liquidity; and funding of the Capital loan (service investment – housing). The current level of borrowing is well within prudential limits.
- 5.6. The maturity profile of the loans is considered when undertaking external borrowing to ensure maturity dates are evenly spread so that the Council is not exposed to a substantial re-financing requirement at any one time, when interest rates could be high. The graph below details the maturity profile of current loans.



- 5.7. The treasury team, along with Link, monitors opportunities to reschedule debt, i.e. reorganise existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable, in order to manage risk and achieve overall financial benefit to the Council taking account of the premium the Council would expect to pay on early redemption compared to the potential interest savings. No debt rescheduling has taken place during the year.

6. Prudential Indicators

- 6.1. All treasury management operations have been conducted in full compliance with the Council's Treasury Management Practices and within the treasury

management and prudential indicators set in its Treasury Management Strategy Statement 2022/23. The Executive Director and Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.