

STAFFORDSHIRE MOORLANDS DISTRICT COUNCIL

Audit & Accounts Committee

22 October 2021

TITLE:	Internal Audit Annual Report 2020/21
PORTFOLIO HOLDER:	Councillor Sybil Ralphs - Council Leader SMDC
CONTACT OFFICER:	John Leak - Head of Audit
WARDS INVOLVED:	Non Specific

**Appendices Attached – Appendix 1 Year End Information for 2020/21
Appendix 2 Summary of Assurance Opinions
2020/21**

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 2020/21 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 2020/21. 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 2020 to 31st March 2021 and the year end performance information referred to above is outlined in the detailed part of this report. Due to the effects of the Covid-19 pandemic including continued diversion of audit resources to support the corporate response to the administration of the Governments various business grants support schemes, the Audit Plan for 2020/21 took longer than usual to complete.
- 3.3 All audit recommendations have been agreed, and to date 93% of 2020/21 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

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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 2020/21 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 2020/21 was agreed by this committee on 3rd July 2020. 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 Internal Audit resources in the first quarter of 2020/21 were diverted to support the corporate response to the administration of the Governments various business grants support schemes and this support has been ongoing since the 2020/21 audit plan was commenced in July 2020 due to the introduction of further Government grant schemes. As a result the Audit Plan for 2020/21 took longer than usual to complete and the percentage of the audit plan completed has been adversely affected.

6.2.2 Key information for both 2020/21 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 2020/21		2019/20
Percentage of Audit Plan completed (performance against annual plan)	86%	90%
Number of recommendations made	129	201
Percentage of recommendations agreed with Service Managers	100%	100%
Percentage of recommendations due implemented within agreed timescale	93%	66%

6.2.3 In order to put this into context, completion of 86% of the audit plan represents four planned audits that were not completed. These audits have been included within the 2021/22 audit plan where appropriate.

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 93% of all 2020/21 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.

6.4 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 2020/21

6.5.1 During 2020/21, 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 2019/20 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 2019/20 Statement of Accounts;
- Reported on a review of the Council's corporate governance arrangements;
- Approval of updated Alliancewide Policy and Procedures governing the use of the Regulation of Investigatory Powers Act 2000.

6.6 Developments for 2021/22

6.6.1 In 2021/22 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 2021/22 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 2021/22;
- 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;
- Reviewing counter fraud arrangements;
- Engaging the services of an ICT audit specialist where required;
- Undertaking a knowledge and skills framework assessment to identify and evaluate the overall knowledge and skills of the Audit & Accounts Committee in order to identify training needs and to enable the committee to perform effectively.

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 2020/21 the following opinions were given by Internal Audit (see **Appendix 2** for breakdown):
- 4 service areas had controls within the system to provide **substantial assurance** that risks material to the achievement of the systems objectives are adequately managed;

- 18 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 areas 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.