

Internal Audit Annual Report 2020-21



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1. Introduction

- 1.1 West Suffolk Council is responsible for establishing and maintaining risk management processes, control systems and governance arrangements. Internal audit plays a vital role in providing independent risk-based and objective assurance and insight on how these arrangements are working. Internal audit forms part of West Suffolk Council's assurance framework.
- 1.2 Council services recognise that while they may be delivering a good service they can always improve or look for best practice. They will therefore often proactively engage with internal audit to help achieve this and therefore audit activity in service areas demonstrates the council's culture of continuous improvement.
- 1.3 The purpose of the Internal Audit Annual Report is to meet the Service Manager (Internal Audit)'s annual reporting requirements as set out in the Public Sector Internal Audit Standards (the 'Standards') which govern how internal audit teams operate in the public sector, and the Accounts and Audit Regulations 2015. In particular to:
- include an opinion on the overall adequacy and effectiveness of the council's governance, risk, and control framework, and therefore the extent to which the council can rely on it
 - inform how the audit plan was discharged and the overall outcomes of the work undertaken that supports the annual audit opinion
 - include a statement on conformance with the Standards and the results of the internal audit quality assurance processes, and
 - draw attention to any issues particularly relevant to the council's annual governance statement.

2. Annual opinion

Background

- 2.1 During the year, significant time was spent by the audit team on supporting the council's response to the impacts of COVID-19, in particular supporting processes around the payment of COVID-19 related grants to businesses, as well as some redeployment of internal audit staff to assist other services. The fluid and flexible nature of the internal audit work plan has allowed internal audit resources to be used in this way as part of the 'added value' work undertaken by the team which has always been concerned with using internal audit resources where the most impact can be achieved.
- 2.2 As a result of the above, and this was not unexpected, less 'direct' audit assurance work was carried out within the period than would normally be the case. However, the majority of the priority 1, and some of the priority 2, work included in the approved audit plan was completed, as well as other significant work set out in this report below.
- 2.3 Sufficient work has therefore been undertaken in support of the annual audit opinion to give assurance that there is generally a sound system of internal control designed to meet the council's objectives, and that controls are generally applied consistently.

How the annual audit opinion has been formed

- 2.4 CIPFA has recognised that the impact of COVID-19 on all public services including local authorities has been considerable and that for internal auditors it has raised the question of whether they are able to undertake sufficient internal audit work to gain assurance for 2020-21. As a result, CIPFA has recently issued guidance covering the availability of assurance and the resulting impact on annual audit opinions.
- 2.5 The above guidance states that the factors impacting on the availability of assurance from internal audit and other sources of assurance include:
- the changing risks and impacts on the organisation itself
 - whether key governance, risk management and internal control arrangements have deteriorated or been maintained
 - changes to the resource base of internal audit, whether staff or budget related
 - demands on internal audit for any advisory or non-audit support that will not directly support the audit manager's opinion, and
 - operational disruptions that impact on the access of internal auditors to key staff, information or systems resulting in greater inefficiency and reduced outputs.

The above has been carefully considered when forming the West Suffolk annual audit opinion for 2020-21 and the conclusion has been drawn that sufficient assurances are available to allow a robust annual audit opinion to be given for each of the opinion categories, these being governance, risk, internal control, and financial control.

- 2.6 The main sources of assurance contributing to the 2020-21 audit opinion are those gained from the audit work carried out during the year which is detailed in the sections below including:
- audit work under each audit opinion category
 - COVID-19 response work
 - other added value work
 - work on the 2020-21 Annual Governance Statement including review of the assurance framework, and
 - other significant audit work undertaken including performing the Mildenhall Hub project assurance role.
- 2.7 Assurances can also be gained from the following sources:
- counter-fraud work as set out in our Annual Fraud Report 2020-21 at **Appendix B**
 - maintaining awareness of risks and activities within the council through a series of targeted and structured meetings with relevant officers to discuss how the pandemic has affected processes, risks, and controls within services
 - consideration of committee and other reports for any areas affecting governance, risks, or controls
 - attendance at officer working groups and managers meetings to understand current risks and actions being taken

- audit knowledge of council processes and initiatives, such as those around staff wellbeing, and the response to the challenges of COVID-19 including an already well-established capability of staff being able to work remotely
- reliance that internal audit continues to operate in accordance with the Public Sector Internal Audit Standards. We have established quality working procedures including review mechanisms for work undertaken, and annual self-assessment of adherence to these procedures
- assurances received from external parties.

2.8 West Suffolk has enjoyed a strong control environment and good audit opinion in previous years, and this gives us some comfort that this strong control environment will have continued throughout 2020-21, particularly in view of the continued stability of management arrangements.

Audit opinion definitions

Good assurance	risks are managed well with no significant (medium risk) or fundamental (high risk) control issues or risks raised.
Reasonable assurance	in general, risks are managed well. A number of significant (medium risk) control issues and risks have been raised.
Limited assurance	management of risks is only partially achieved. Fundamental (high risk) and/or significant (medium risk) control issues and risks have been raised.
No assurance	management of risks is not achieved. Fundamental (high risk) and significant control issues and risks have been raised.

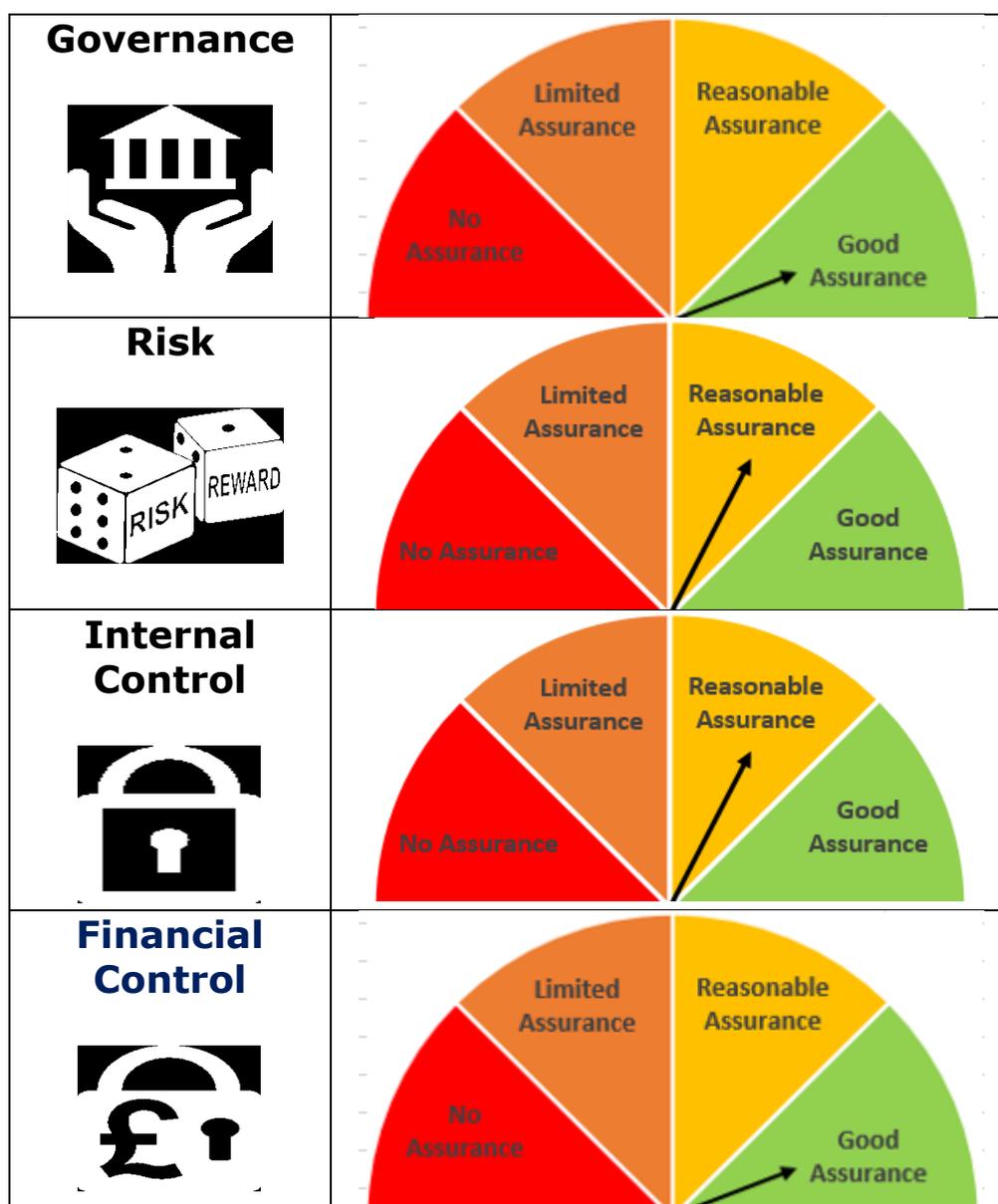
2.9 In order to make the annual audit opinion informative and transparent, the opinion has been split into the four constituent elements of governance, risk, internal control, and financial control, and a specific conclusion drawn on each.

2.10 It should be noted that an opinion of 'reasonable assurance' for any of the four opinion elements should be interpreted as a good result and indicates that in general controls and processes are fit for purpose and working well, while recognising that there are opportunities for further improvements.

2.11 We have also included a direction of travel (see below) for each element of the audit opinion to highlight our view of whether the adequacy and effectiveness of arrangements has changed compared to the previous year.

Annual opinion

2.12 For the twelve months ended 31 March 2021, based on the work undertaken and information from any other sources of assurance as explained above, the Service Manager (Internal Audit)'s opinion on the adequacy and effectiveness of West Suffolk Council's arrangements for governance, risk, internal control and financial control is as set out below.



Governance

- 2.13 Governance comprises the systems, processes, culture, and values by which West Suffolk Council is directed and controlled and through which it accounts to, engages with, and where appropriate, leads its communities.
- 2.14 Each year local authorities are required to reflect on how their governance arrangements have worked, identifying any significant governance issues that should be drawn to the attention of the public, in the interests of accountability and transparency.
- 2.15 Work on the 2020-21 West Suffolk Annual Governance Statement (AGS) is at an advanced stage, and no significant governance issues are expected to be disclosed for the period to 31 March 2021. The 2020-21 AGS will however reference the council's response to the challenges posed by the COVID-19 pandemic including any governance impacts in 2020-21.

2.16 The Performance and Audit Scrutiny Committee helps to ensure that governance arrangements are working effectively through considering reports that come before them, including approval of the AGS.

2.17 **Governance opinion.** The opinion remains the same as for 2019-20 and is assessed as **good assurance**.

Risk

2.18 Good risk management is part of the way we work. It is about taking the right risks when making decisions or where we need to encourage innovation in times of major change – balancing quality, cost, and affordability. This puts us in a stronger position to deliver our goals and provide excellent services.

2.19 Work during the year in this area on which the annual audit opinion on risk is based, included:

- ongoing audit consideration of management approach to, and mitigation of, risk as an integral part of all our audit work, and awareness of management activities
- consideration of relevant reports presented to Leadership Team, and
- attending the Strategic Risk Management Group meetings during the year to gain assurance over, and feed into as necessary, the strategic risk management process.

The conclusion drawn from this work was that risk management arrangements for projects and strategic risks have continued to operate as expected during the period.

2.20 **Risk opinion.** The opinion remains the same as for 2019-20 and is assessed as **reasonable assurance**.

Internal control

2.21 This takes into account the outcome of our work during 2020-21. As our audit plans include different activities each year assurance may vary from year to year. However, the assurance level still gives insight into the council's control environment.

2.22 During the year the following reviews were carried out and opinions issued:

- Anglia Revenues Partnership (ARP) enforcement (ARPE) – good assurance
- council tax billing and benefits – this work remains to be finalised but an audit opinion of reasonable assurance is currently expected
- ARP overpayments recovery – this work remains to be finalised but an audit opinion of reasonable assurance is currently expected
- non-domestic rates (NDR) – this work remains to be finalised but a draft audit opinion of reasonable assurance is currently expected
- staff gifts and hospitality – reasonable assurance
- staff declarations of interest – reasonable assurance
- members gifts and hospitality – good assurance
- members declarations of interest – good assurance
- disabled facility grant from the Ministry of Housing, Communities, and Local Government – good assurance

- health and safety (lone working) follow up
- houses in multiple occupation follow up
- confidential waste service follow up
- civic regalia follow up
- payment card industry data security standards follow up
- access to ICT systems follow up

No opinions are issued for follow up audits as they only look at implementation of previously agreed actions.

Note: the NDR review was undertaken by the East Suffolk Internal Audit Team and the ARPE review was undertaken by the Fenland Internal Audit Team on behalf of the 5 councils currently working together as the Anglia Revenues Partnership.

- 2.23 **Internal Control opinion.** The opinion remains the same as for 2019-20 and is assessed as **reasonable assurance**.

Financial control

- 2.24 Our audit plan includes providing assurance over our key financial systems. This work is also of particular interest to the external auditor when planning and performing their audit of West Suffolk's annual statement of accounts.

- 2.25 During the year the following reviews were carried out and opinions issued:

- treasury management – good assurance
- general ledger (control account reconciliations) – good assurance
- payroll – good assurance
- car parks cash handling – good assurance
- creditors follow up
- debtors follow up
- contract management follow up

No opinions are issued for the follow up audits as they only look at implementation of previously agreed actions.

- 2.26 **Financial Control opinion.** The opinion remains the same as for 2019-20 and is assessed as **good assurance**.

3. Scope of our work and any restrictions on this scope

- 3.1 Our risk-based 2020-21 internal audit plan, approved by the Performance and Audit Scrutiny Committee in May 2020, was prepared taking into account the critical activities and key risks to support the basis of the annual internal audit opinion.
- 3.2 Where issues have been raised as a result of audit work undertaken actions have been agreed with management to address any findings raised. Progress against these actions, where not already followed up in 2020-21, will be followed up by internal audit as part of our 2021-22 work plan.

- 3.3 In carrying out our work we identified no unexpected restrictions to the scope of our work.
- 3.4 We have not experienced any impairment to our independence or objectivity during the conduct and delivery of the 2020-21 audit plan.

4. COVID-19 response work – non-assurance work

Grants to businesses

- 4.1 Significant internal audit resource has been assigned since April 2020 to support processes in respect of COVID-19 related grants to businesses by:
- contributing to discussions regarding the setting up of systems to check and pay grant applications
 - assisting finance colleagues with preparing records enabling payments to be made
 - performing ongoing checks to reduce fraud and advise on actions necessary where fraud is suspected, or ineligible claims are made
 - providing assurance, and carrying out initial investigations where necessary, over payments already made.

5. COVID-19 response work – assurance work

Self-isolating payments fund and reopening of high street fund

- 5.1 Acting as a critical friend in ensuring that the council's approach to these schemes is compliant with government guidelines and subject to robust due diligence and financial control.

Income compensation scheme for lost sales, fees, and charges

- 5.2 Review of the council's initial claim to the Ministry of Housing, Communities & Local Government (MHCLG) for compensation for irrecoverable and unavoidable losses, as a result of the pandemic, from sales, fees and charges income generated in the delivery of services, in the financial year 2020-21.

This review was conducted in accordance with guidance issued by MHCLG which states that an authority may choose to engage their internal auditors to provide review and challenge on the appropriateness of the claims that are submitted in line with the relevant guidance.

Other

- 5.3 A number of meetings were held with relevant officers in service areas to gain insights as to how the pandemic has impacted on the council's risk, control, and governance environment.

6. Other added value

6.1 Added value work carried out during the year includes the following:

Demand analysis

6.1.1 Review of demand information that is currently held across service areas.

Waste processes

6.1.2 Review and mapping of a number of current processes in the operations area, primarily in the waste and street scene service.

Customer Services Team

6.1.3 Analysis of the use of customer services resources across service lines and telephone demand.

Chartered Institute of Public Finance and Accountancy (CIPFA) financial management code

6.1.4 Gap analysis to ensure the council is applying the requirements of CIPFA's new financial management code.

Debt management

6.1.5 Aged debt analysis in respect of premises licenses and car park excess charge notices.

7. Fee earning work

7.1 Internal audit continues to undertake fee earning work which brings in income of approximately £12,000 each year. For 2020-21 this work has commenced and will be completed in 2021-22.

7.2 Fee earning work consists of the following:

- audit of the council tax billing and benefits, and overpayments recovery systems at the Anglia Revenues Partnership on behalf of East Cambridgeshire District Council and Breckland Council, and
- fee earning grant certification work on behalf of Suffolk County Council in respect of the New Anglia Local Enterprise Partnership (LEP), to provide assurance to the Department for Business, Energy and Industrial Strategy that the conditions of the relevant specific grant determinations have been complied with.

8. Other significant work

8.1 Other key work undertaken during 2020-21 includes:

Annual governance statement

8.1.1. Co-ordination of the production of the West Suffolk Annual Governance Statement 2019-20, and commencement of work on the 2020-21 statement.

Financial vetting

8.1.2 During the year internal audit responded to around 25 requests for financial vetting or other related financial advice including assessments of organisations' financial suitability to undertake specified contracts for the council.

Mildenhall hub

8.1.3 Performing the project assurance role for the Mildenhall Hub Project and in doing so, consider for each stage of the project whether it is on track and in accordance with agreed governance.

West Stow accounts

8.1.4 Acting as the appointed Independent Examiner of the West Stow Anglo Saxon Village Trust 2019-20 accounts.

Other

8.1.5 Ongoing advice and assistance provided to service areas and the S151 Officer.

9. Quality assurance

9.1 We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards (the 'Standards'). We continually focus on delivering high quality audits, seeking opportunities to improve where we can.

9.2 We are committed to training and developing internal audit staff, with training provision continually reviewed through the appraisal process and regular one-to-one meetings.

9.3 In addition, the Standards require that internal audit 'must develop and maintain a 'quality assurance and improvement programme' that covers all aspects of the internal audit activity'. This quality assurance and improvement programme is designed to check internal audit's conformance with the Standards and the profession's code of ethics and also assess its efficiency and effectiveness and identify any areas for improvement.

9.4 Currently, West Suffolk Council's internal audit quality assurance and improvement programme consists of the following elements:

- an external assessment to independently assess conformance with the Standards every 5 years – an external quality assessment was undertaken

in March 2018, no areas of non-compliance with the Standards were identified

- a quality review process is undertaken for each individual audit. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting
- customer satisfaction questionnaires are issued with audit reports for completion by the service area subject to audit, and
- quality assurance checks by the internal audit team to ensure the Standards are consistently followed.

9.5 The results of the above Quality Assurance processes within the year have been satisfactory with nothing of significance to report. We therefore consider that we have continued to comply with the Standards.

9.6 Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. With this in mind internal audit hold liaison meetings with the external auditors from time to time, and the external auditors take into account work performed by internal audit in planning and performing their own work.

10. Performance against key indicators

10.1 Internal audit’s performance is measured and monitored throughout the year using a range of indicators.

10.2 Performance against relevant indicators is summarised below:

Performance indicator	2019-20 actual	2020-21 target	2020-21 actual
Percentage completion of Priority 1 work within the approved 2020-21 Audit Plan	100%	80%	85%
High risk actions implemented or satisfactory, reasonable progress made by target date	93%	90%	See Note 1 below
Average number of days from fieldwork completion to issue of draft report	6 days	15 days	6 days
Average number of days from receipt of final management comment to issue of final report	3 days	10 days	4 days
Percentage of satisfactory (or better) ratings received from customers on individual audits	100%	90%	100%

Note 1 – these mainly relate to actions which are currently being followed up as part of the council tax billing and benefits, and overpayments recovery, audits

11. Glossary of terms

Significance: the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Internal audit annual opinion: the Service Manager (Internal Audit)'s view, based on internal audit work undertaken and any other relevant assurances, of the adequacy and effectiveness of West Suffolk's arrangements for governance, risk and control.

Governance: governance comprises the arrangements (including political, economic, social, environmental, administrative, legal, and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.

Risk: the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Control: any action taken to manage risk and increase the likelihood that established objectives and goals will be achieved.

Impairment: impairment to objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations.