

INTERNAL AUDIT PROGRESS REPORT 2021/22

Date: 27 April 2022

Annex 1



BACKGROUND

- 1 Internal audit provides independent and objective assurance and advice about the Council's operations. It helps the organisation to achieve its overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.
- 2 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.
- 3 In accordance with the PSIAS, the Head of Internal Audit is required to report progress against the internal audit plan (the work programme) agreed by the Audit, Governance and Standards Committee, and to identify any emerging issues which need to be brought to the attention of the committee.
- 4 The internal audit work programme was agreed by this committee in April 2021. The number of agreed days is 375 (including time for risk management facilitation) and the plan is flexible in nature.
- 5 In 2021/22 Veritau introduced a new, flexible approach to work programme development and delivery to keep pace with developments in the internal audit profession and ensure that we can continue to deliver a responsive service. Work is being kept under review to ensure that audit resources are deployed to the areas of greatest risk and importance to the Council.
- 6 The purpose of this report is to update the committee on internal activity between 1 April 2021 and 8 April 2022.



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- 7 As noted in previous reports to this committee, the Covid-19 pandemic meant there was 2020/21 work outstanding at the start of the year and much of the time in the first part of the year was spent finalising that work.
- 8 Work is ongoing on a number of 2021/22 audits. Fieldwork has been completed for the payroll audit and a draft report will be issued very shortly. A draft report has been issued for the Homes England compliance review.
- 9 Fieldwork is underway on a number of other audits, including general ledger, ICT asset management and council house repairs and maintenance.
- 10 Planning and early stages of fieldwork is underway for a number of audits, including key financial systems. Fieldwork for these audits will be substantially completed in this audit year and we expect to be able to report on the findings from all audits in progress in our annual Head of Internal Audit report.

- 11 A summary of internal audit work currently underway, as well as work finalised in the year to date, is included in appendix A.
- 12 The work programme setting out current priorities for internal audit work is included at appendix B. All of the work classed as do now will be completed as part of the 2021/22 work programme. We have also reviewed the priority of all areas classed as do next and do later. A number of these will be completed as part of the current year's work programme. Others that remain a priority are included in the draft work programme for 2022/23.
- 13 One audit has been completed since the last report to this committee in January 2022. Appendix C summarises the findings from this audit.
- 14 Appendix D lists our current definitions for action priorities and overall assurance levels.



FOLLOW UP

- 15 All actions agreed with services as a result of internal audit work are followed up to ensure that underlying control weaknesses are addressed. As a result of this work we are generally satisfied that sufficient progress is being made to address the control weaknesses identified in previous audits.
- 16 A summary of the current status of follow up activity is at appendix E. The proportion of actions implemented is now increasing, though is still a little lower than might normally be expected, due to the continuing impact of the Covid pandemic. We anticipate Local Government Reorganisation (LGR) will affect implementation of some actions; for example, it may not be efficient or effective to implement significant changes in policies or systems. Where this is the case, actions will be discussed with officers to agree how any issues and risks can be efficiently and effectively managed in the lead up to LGR.

APPENDIX A: 2021/22 INTERNAL AUDIT WORK

Audits in progress

| Audit | Status |
|---------------------------------------|---------------------|
| Payroll | In progress |
| General ledger | In progress |
| ICT asset management | In progress |
| Council House Repairs and Maintenance | In progress |
| Health and safety – homeworking | In progress |
| Information security at home | In progress |
| Homes England | Draft report issued |
| Council Tax & NNDR | In progress |
| Debtors | Planning |

Final reports issued

| Audit | Reported to Committee | Opinion |
|--|-----------------------|-----------------------|
| Creditors | September 2021 | Limited Assurance |
| Debtors | September 2021 | Substantial Assurance |
| Housing Rents | September 2021 | Substantial Assurance |
| Community Infrastructure Levy | September 2021 | Reasonable Assurance |
| Housing Benefits & Council Tax Support | January 2022 | Substantial Assurance |
| Council Tax & NNDR | January 2022 | Substantial Assurance |
| Pooling of housing capital receipts | February 2022 | No opinion given |

Other work in 2021/22

Internal audit work is undertaken in other areas during the year, including:

- Certification of the Local Authority Covid Compliance and Enforcement Grant

APPENDIX B: CURRENT PRIORITIES FOR INTERNAL AUDIT WORK

| Audit | Status | | |
|---|--------|---------|----------|
| | Do now | Do next | Do later |
| Strategic risks / corporate & cross-cutting | | | |
| Health and safety – homeworking | ✓ | | |
| Information security at home | ✓ | | |
| LGR related work (including projects, contract management, financial procedure rules and decision making) | | | ✓ |
| Fundamental / material systems | | | |
| Payroll | ✓ | | |
| General ledger | ✓ | | |
| Council Tax & NNDR | ✓ | | |
| Debtors | ✓ | | |
| Creditors | | ✓ | |
| Housing Rents | | ✓ | |
| Benefits | | ✓ | |
| Operational / regularity | | | |
| Homes England | ✓ | | |
| Council house repairs and maintenance | ✓ | | |
| Environmental health | | | ✓ |
| Planning (inc. s106 & CIL) | | | ✓ |
| Homelessness / housing options | | | ✓ |
| Technical / projects | | | |
| ICT asset management | ✓ | | |
| Cyber security | | | ✓ |

Further explanation on the work status

The programme of work is subject to ongoing review and is adjusted in response to changes in the Council's activities, risks, operations, systems and controls. During the year, planned work is prioritised on the basis of:

- Do now – work of the highest value, priority, or urgency
- Do next – work to be started after current audit work is completed
- Do later – work to be scheduled for consideration later in the year

Changes in the priority and timings of work are agreed with cCouncil officers.

Individual audit assignments can also move between the categories as required.

APPENDIX C: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

| System/area (month issued) | Area reviewed | Assurance rating | Comments | Management actions agreed |
|---|--|---------------------|---|------------------------------|
| Pooling of Housing Capital Receipts return 2020-21 (February 2022) | An annual review of the council's return to the Dept for Levelling Up, Housing and Communities (DLUHC). | No opinion given | <p>All necessary checks and tests were completed and discussed with the responsible finance officer.</p> <p>The required letter reporting findings was provided to DLUHC with no significant issues noted.</p> <p>The only issue that was noted was that, due to the pandemic, the Pooling Return form had not been physically signed by the Responsible Finance Officer (Head of Finance). A supporting email from the Responsible Finance Officer (Head of Finance) was written to confirm the figures on the Pooling Return form were correct.</p> | None required |

APPENDIX D: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

| Audit opinions | |
|--|--|
| Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit. | |
| Opinion | Assessment of internal control |
| Substantial assurance | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. |
| Reasonable assurance | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. |
| Limited assurance | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. |
| No assurance | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |

| Priorities for actions | |
|-------------------------------|--|
| Priority 1 | A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management |
| Priority 2 | A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management. |
| Priority 3 | The system objectives are not exposed to significant risk, but the issue merits attention by management. |

APPENDIX E: FOLLOW UP OF AGREED AUDIT ACTIONS

Where weaknesses in systems are found by internal audit, the auditors agree actions with the responsible manager to address the issues. Agreed actions include target dates and internal audit carry out follow up work to check that the issue has been resolved once these target dates are reached. Where managers have not taken the action they agreed to, issues may be escalated to more senior managers, and ultimately may be referred to the Audit and Governance Committee.

Actions followed up

A total of 51 outstanding agreed actions as a result of internal audit work completed were due for implementation up to March 2022. Of these, it has been confirmed that 25 have been satisfactorily implemented; Revised dates have been agreed for 5 actions; this is done where the delay in addressing an issue will not lead to unacceptable exposure to risk and where, for example, delays are unavoidable. A small number of actions are now considered redundant, for example, where systems or processes have changed so that they are no longer exposed to risks. Follow up work is still in progress for the remaining actions.

Summary of actions status and priorities:

| Actions agreed | | Action Priority | | |
|-----------------------------|--------------|-----------------|-----------|-----------|
| Action status | Total Number | 1 | 2 | 3 |
| Actions now implemented | 25 | 1 | 13 | 11 |
| Revised date agreed | 8 | 0 | 5 | 3 |
| Redundant / superseded | 3 | 0 | 3 | 0 |
| Follow up in progress | 11 | 0 | 9 | 2 |
| Actions not yet followed up | 4 | 0 | 2 | 2 |
| Total | 51 | 1 | 32 | 18 |

HIGHER PRIORITY ACTIONS WITH REVISED DATES OF MORE THAN 12 MONTHS FROM ORIGINALLY AGREED DATE

| Audit | Agreed Action | Priority Rating | Responsible Officer | Due | Notes / Update |
|--|--|-----------------|--|--|---|
| Payment Card Industry Data Security Standard (PCI DSS) | New software purchased as old system ceased to be supported. Implementation of new software should resolve PCI DSS issues. Management responsibility has been defined. Responsibility for completing annual PCI DSS assessment to be assigned. | 1 | Head of Business Development and Improvement | Revised date: February 2022 (previously December 2020 and July 2021) | The new income management system (CivicaPay) which was required to enable PCI DSS compliance went live in January 2022 (as per the verbal update provided to the January meeting of audit and governance committee). |
| Performance Management | HR to undertake QA review of sample of PDRs Return rate of PDRs to be monitored & all PDRs reviewed and returned to manager if not complete. Training plan to be completed promptly following PDR process. | 2 | Head of Business Development and Improvement | Revised date: February 2022 (previously December 2020 and June 2021) | A significant push was undertaken in late 2021 to encourage managers to complete and return PDRs. Multiple reminders were issued. As of January 2022, 51% of PDRs were returned. This is still not satisfactory and has been raised at Leadership Team, included in the Manager Forum and at all staff briefings. Action will continue to be taken to ensure PDRs are completed. A Training Plan was compiled and Leadership Team reviewed requests for qualification training in March 2022. Staff were informed of the outcome of their qualification training requests in April 2022. |

| Audit | Agreed Action | Priority Rating | Responsible Officer | Due | Notes / Update |
|-------|---------------|-----------------|---------------------|-----|---|
| | | | | | Due to LGR, there are no further plans to review the PDR process but managers will still need to undertake performance reviews with their teams during 2022-23. |