

# Internal Audit Annual Report 2020/21

“Providing assurance on the management of risks”



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## “Providing assurance on the management of risks”

This document summarises the results of internal audit work during 2020/21 and as required by the Accounts and Audit Regulations 2015 gives an overall opinion of the Authority’s control environment.

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### Opinion

Based upon the results of work undertaken during the year my opinion is that the Authority’s control environment provides **moderate assurance** that the significant risks facing the Authority are addressed.

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### Context

This report outlines the work undertaken by Internal Audit between 1 April 2020 and 31 March 2021.

Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Internal Audit plays a vital part in advising the organisation that these arrangements are in place and operating properly. On behalf of the Authority, Internal Audit review, appraise and report on the efficiency, effectiveness and economy of these arrangements.

Internal Audit is required by professional standards to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards.

The primary role of Internal Audit is to provide assurance to the organisation (chief executive, strategic directors and the Audit and Standards committee) and ultimately the taxpayers that the authority maintains an effective control environment that enables it to manage its significant business risks. The service helps the Council achieve its objectives and provide assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of the Authority’s control environment which feeds into the Annual Governance Statement.

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## Internal audit work during 2020/21

The underlying principle to the 2020/21 plan was risk and accordingly audits were focussed on areas that represented an identified risk.

The methodology adopted in preparing the plan, and the plan itself, were approved by the Audit and Standards Committee on 20 July 2020.

Since the original plan was approved a number of additional audits have proved necessary, some planned audits were no longer required. Variations to the plan during the year are inevitable if the plan is to adequately reflect changing circumstances and the changing organisation.

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## COVID-19

The year was significantly impacted by the response to COVID-19. Planned work was temporarily halted to allow the council to focus on the COVID-19 response and the follow up of recommendations was also postponed. Internal Audit supported with controls advice during the response phase, whilst members of the team also took on non-audit work to contribute directly to front line services. The service had to adapt to the challenge of auditing remotely, and be mindful of the quality and reliability of evidence which could be obtained. Our work was impacted later in the year by the second wave of Covid infections which hit the UK in the autumn of 2020, leading to another lockdown. Internal Audit work did, however, continue through the autumn and winter, and the work completed, along with a review and assessment of other sources of assurance is sufficient to support an evidence based annual opinion.

In order to inform my annual opinion I have taken account of the results of fieldwork and draft opinions. Whilst the usual approach would be to report only on finalised work and there is potential for some movement in the opinions through the discussion and finalisation process, I am confident that the independent evidence gained through the fieldwork on these audits is sufficiently robust to be taken into account in the overall assessment of governance, risk management and control.

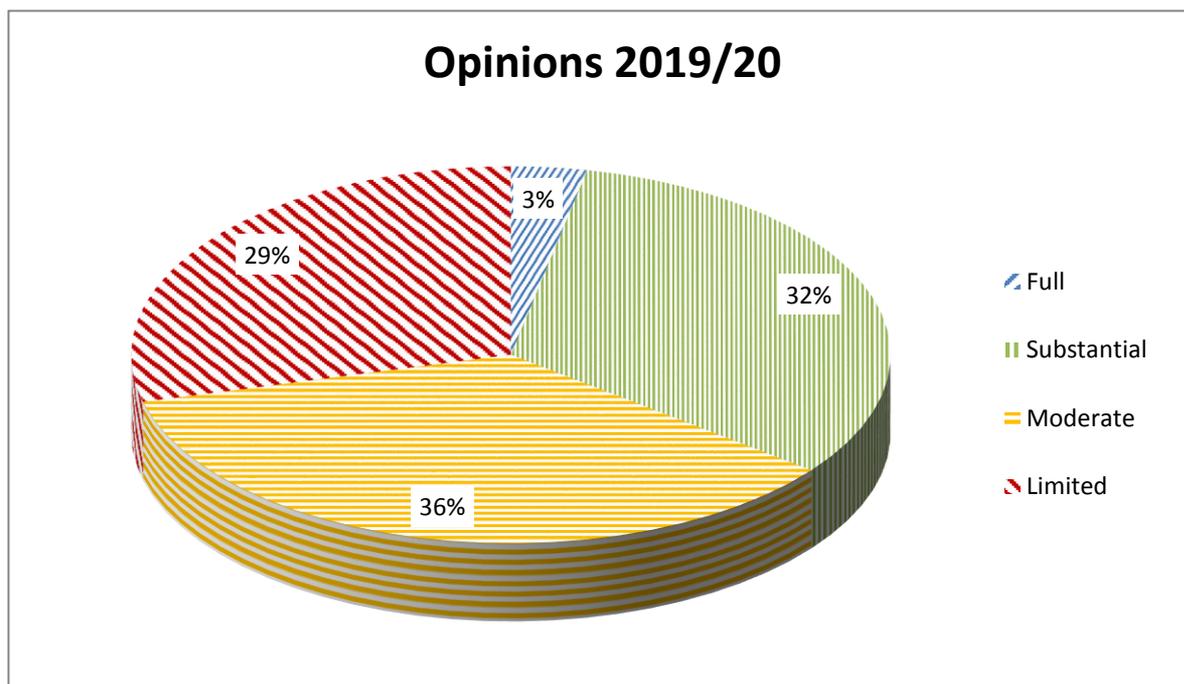
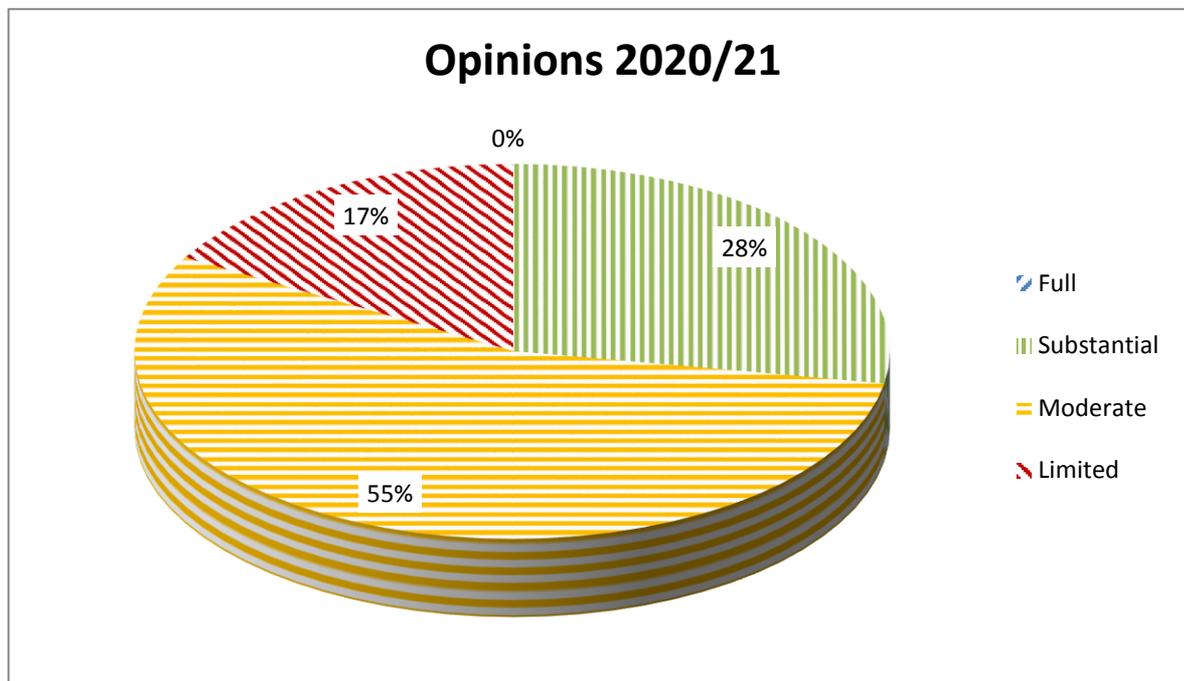
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## Summary of assurance work

The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits are given one of four levels depending on the strength of controls and the operation of those controls. The four categories ranging from the lowest to highest are Limited, Moderate, Substantial and Full. The opinion reflects both the design of the control environment and the operation of controls. The Audit and Standards Committee has received regular reports during the year summarising audits undertaken.

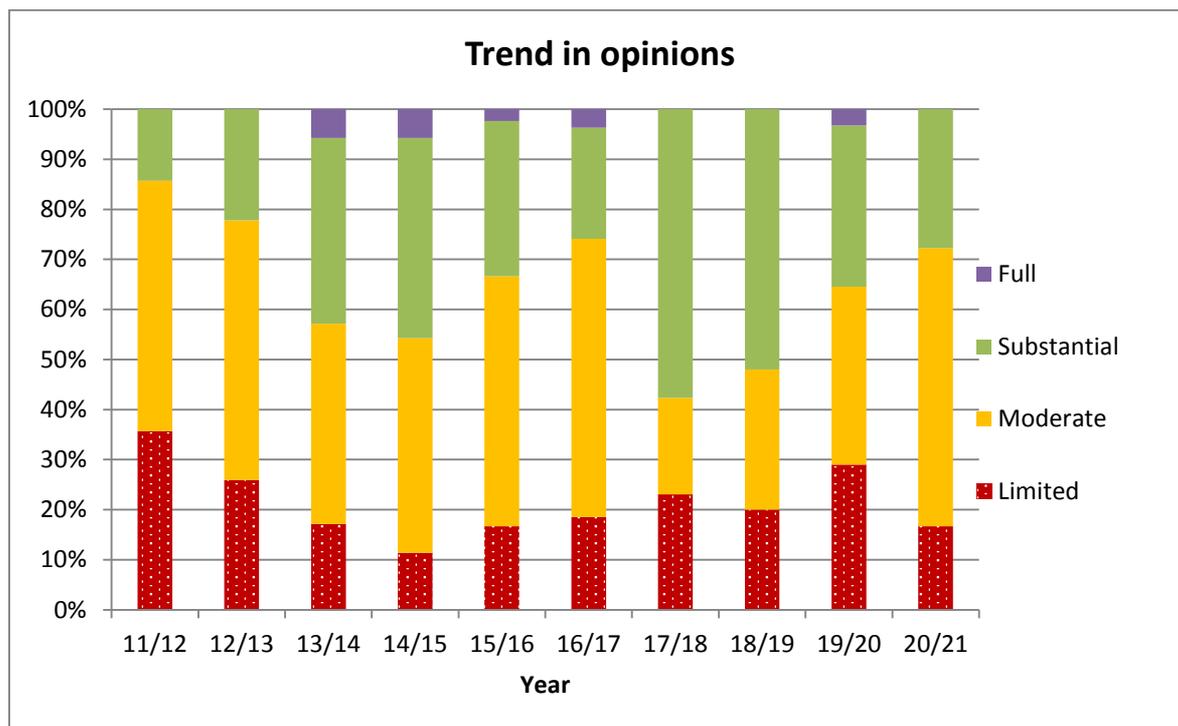
As shown in the following chart the outcome of the majority of this year's audits are positive having a moderate or substantial opinion. Although the proportion which are Substantial or Full has reduced slightly from 35% in 2019/20 to 28%. There is a larger fall in the proportion of audits where controls provided only Limited assurance that

significant risks were being addressed (from 29% to 17%). The Limited assurance reports relate to specific areas rather than represent an across the board breakdown in controls. The key issues arising from finalised limited opinion audits have been reported to the Audit & Standards Committee. As stated above, as a result of the response to COVID-19 I have included draft opinions to give an appropriately broad overview of audit coverage. These audits will be progressed and finalised as capacity allows and the control and governance impacts of limited opinion audits will be reported to the Audit and Standards Committee at that stage.



A full list of the assurance work undertaken during the year is given in Appendix A.

The proportion of audits in each category is illustrated in the following chart which shows the year on year trend over the period from 2011/12 to 2020/21.



When comparing the ratings across years it should be noted that of course the audit plan includes different topics each year so caution is needed when interpreting this chart. A number of “limited” opinions are to be expected each year especially as the audit planning processes and our limited resources means that increasingly only those areas with a high degree of change or risk are included in the plan. The increasing pressures and extent of change facing the Authority may also be a factor. In general terms the picture remains positive. The proportion of Limited opinions has decreased, and the proportion of audits resulting in a positive opinion (Moderate or higher) was over 80%.

COVID-19 will continue to impact the delivery and design of services during 2021/22, bringing both opportunities and threats to control and governance. Careful management will be required to ensure there is not an adverse impact on standards of governance and control.

Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. The current categories used, in increasing order of importance are: Merits Attention, Significant and Fundamental.

Follow up exercises have been undertaken to provide feedback on the extent to which agreed actions have been implemented to address identified weaknesses. There is, an ongoing cycle of follow up work during the year and the latest exercise was reported in the 25<sup>th</sup> March 2021 progress report to the Audit and Standards Committee.

Recommendations are followed up to ensure that they are implemented and where there is delay this is reported to the Internal Audit Board and the Audit and Standards Committee. Those recommendations showing as “Outstanding” are therefore subject

to scrutiny and the Audit and Standards Committee call in managers to explain delayed progress where appropriate.

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## Summary of non-assurance work

### Special investigations

The size and complexity of the County Council means that some irregularities are inevitable and therefore, in addition to planned assurance work, a small number of special investigations were needed during the year and the significant issues arising were reported to the Audit and Standards Committee during the year. The Audit and Standards Committee has considered reports on the circumstances of each case and remedial action has been taken to address the control weaknesses identified. The control weaknesses identified by these issues are isolated to the teams concerned and hence do not impact the Council's overall control environment.

Suspected frauds can be reported to our dedicated fraud hotline 01926 412052 or by email to [tellusaboutfraud@warwickshire.gov.uk](mailto:tellusaboutfraud@warwickshire.gov.uk)

### Advice

Internal audit is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. This work reduces the issues that will be raised in future audits and contributes to a stronger control environment. During the year therefore the service continued to provide consultancy input into a number of topics. This covered support around COVID response and also control over funding received for COVID purposes. In addition we provided advisory support on the following:

- Warwickshire Property and Development Group
- Making Tax Digital
- Net to Gross project
- Highways system enhancements
- Schools causing concern
- Mosaic development

Advice was also provided on a range of minor changes to financial processes.

### Certification

Audit is required to certify a number of grant claims the main ones relating to the Priority Families Programme but also covering Capital grants, Bus services and Covid payments. The service also undertakes a small amount of work in relation to the

certification of accounts for miscellaneous County Council related funds. These were all cleared satisfactorily.

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## Other Sources of Assurance

Whilst the key source of assurance which supports the annual opinion is the independent audits undertaken by the Internal Audit team, there are other sources of assurance which are helpful to provide support for the opinion on the council's Governance, Risk Management and Internal Control. For 2020/21 these have included the following:

- Work undertaken by independent experts on risk management has supported the development of the council's new risk management strategy. This has strengthened the approach to risk appetite and involved engagement with managers. This included self-assessment of key risk areas.
- External penetration testing of cyber security.
- An internal assessment of compliance with the CIPFA code of Financial Management.
- Covid Decision Log demonstrating continuity of compliance with governance arrangements during the pandemic

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## Effectiveness

This section of the report sets out information on the effectiveness of the service and focuses on compliance with the Public Sector Internal Auditing Standards (PSIAS) and customer feedback.

A full externally conducted quality assessment of the service was conducted during 2018. The report of that assessment states that the audit service "complies with the expectations of the Public Sector Internal Audit Standards and compares favourably to other provision within the sector."



In accordance with best practice there is a rigorous internal review of all work undertaken by senior staff and the results feed into the staff appraisal process.

Following most audits a "post audit questionnaire" is issued to the relevant managers asking for their views on the conduct of the audit. The questionnaire includes a range of questions covering the audit approach, reporting format, etc. A key feature of the audit role is the need to sometimes be critical of existing or proposed arrangements. There is therefore an inherent tension that can make it difficult to interpret surveys.

*"...easily the best audit experience I've had in 25 years of management"*

The post audit questionnaire responses returned continue to be good with the average score from all surveys returned during 2020/21 being 4.65 out of a maximum of five, (up from 4.5 in 2019/20) and a number of positive comments and compliments about the service provided have been received, including:

- *...”I found the Auditor to be very professional and helpful throughout this process...”*
- *“...This is easily the best audit experience I’ve had in 25 years of management”*
- *“...Any negative points were delivered in such a way that I felt they were truly related to continuous improvements in our management of our risks rather than a criticism of the way we work.”*
- *“...Team were proactive in chasing to see if this audit was going to be required this year and patient when heavy workloads meant a delay from the operational side. Also turned them around amazingly quickly. Many thanks”*

It is clearly important for any audit service to keep abreast of best professional practice. The internal audit service is fortunate in having strong links with colleagues both within the Midlands and nationally and these have continued despite some initial disruption caused by COVID. The Service has a group membership to the Institute of Internal Auditors providing its staff with technical and professional support. The secretary of the CIPFA audit panel regularly briefs heads of audit on new developments in the profession. At a regional level there are networking opportunities for auditors specialising in adult social care, fraud and police. As well as good opportunities for continuing professional development and sharing best practice these activities provide advance information on new developments which can be reflected in the audit plan.

The audit service has maintained adequate staffing levels including the recruitment of new staff during the year. The service has mainly been working remotely, which has required changes in approach to the collection and assessment of evidence, but the challenges were recognised and the team has adapted quickly, enabling audits to be completed to the required standards.

The Authority can be confident that a good quality internal audit service continues to be provided.

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## Opinion

It is the responsibility of the County Council to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under PSIAS to provide an annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s governance, risk and control framework (i.e. the control environment) and a summary of the audit work from which the opinion is derived.

No system of control can provide absolute assurance against material misstatement / loss or eliminate risk, nor can Internal Audit give that assurance. The work of internal audit is intended only to provide reasonable assurance on controls. In assessing the level of assurance to be given, I have taken into account:

- all audits completed during the year;
- audits which are in draft and where a management response is awaited;
- any follow-up action taken in respect of audits from previous periods;

- any fundamental recommendations not accepted by management and the consequent risks;
- anticipated outcome from audits currently in draft;
- the effect of non-assurance work undertaken during the year;
- the content of the Annual Governance Statement which states that there have been no governance failures during the year;
- the progress on development and implementation of a revised risk management strategy;
- the effect of any significant changes in the Authority's systems; and
- matters arising from previous reports to members.

Some significant issues have arisen during the year but action plans have been agreed with the relevant managers to address the weaknesses identified. Where weaknesses have been identified they have tended to relate to specific parts of the organisation rather than an across the board breakdown in controls. Those audits involving major control weaknesses are in the minority and in general terms, controls are sufficient to prevent or detect serious breakdowns in systems and procedures. However, it is clearly important that issues identified during the year are addressed.

I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's governance, control and risk processes.

Based upon the results of work undertaken during the year my opinion is that the Authority's governance, control and risk management provides **moderate assurance** that the significant risks facing the Authority are addressed.

**Paul Clarke**  
**Internal Audit Manager**  
**(Head of Audit)**

Summary of audits completed during the year.<sup>1</sup>

Assurance Audits		Level of Assurance
	<b>Communities</b>	
1.	Trade waste	Moderate
2.	Capital schemes	Moderate
3.	HMICFRS inspection action planning	Moderate
	<b>People</b>	
4.	Commissioning – 16-17 year olds	Limited
5.	Serious case reviews	Moderate
6.	Priority Families	Substantial
	<b>Resources</b>	
7.	Budget management	Moderate
8.	Your HR Access control	Moderate
9.	Manager responsibilities	Moderate
10.	Property recharges	Moderate
11.	IT Access, Starters, movers, leavers	Moderate (draft)
12.	IT Disaster recovery	Moderate (draft)
13.	Pension Administration	Limited
14.	Strategic Property	Limited
15.	Blue Badge scheme	Substantial
16.	Accounts Payable	Substantial
17.	Change Governance	Substantial
18.	Payroll	Substantial

Certification Audits		Outcome
19.	Priority families (4 claims)	Certified
20.	Members Club	Certified
21.	Staff Club	Certified
22.	Winter Grant scheme	Certified
23.	Wine and plate fund	Certified
24.	Highways Maintenance needs element	Certified
25.	Highways Maintenance incentive element	Certified
26.	Highways Maintenance Challenge Fund - Historic Bridge Maintenance	Certified
27.	National Productivity Investment Fund	Certified

<sup>1</sup> Note that some of these audits started in 2019/20