

**NEWCASTLE-UNDER-LYME BOROUGH COUNCIL**

**EXECUTIVE MANAGEMENT TEAM'S  
REPORT TO**

**Audit & Standards Committee**  
**26 July 2021**

**Report Title:** Internal Audit Annual Report 2020/21

**Submitted by:** Chief Internal Auditor

**Portfolios:** Finance, Town Centres and Growth

**Ward(s) affected:** All

**Purpose of the Report**

To consider the annual report of the Internal Audit activity for the financial year 2020/21.

**Recommendation**

**1. The Internal Audit Annual Report for 2020/21 be noted.**

**Reasons**

In accordance with the Internal Audit Charter objective to report progress against the plan to the Audit & Standards Committee on a quarterly basis and to provide an annual opinion on the Authority's control environment.

**1. Background**

- 1.1 The primary purpose of an Internal Audit service is to provide an independent, objective assurance and consulting service to the organisation; and through the efficient delivery of this service seeks to add value and improve the organisation's operations and controls to effectively deliver the council's Strategic Priorities. Internal Audit assists the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. Internal Audit is an independent appraisal function within the Borough Council under the control of the Head of Finance (and Section 151 Officer).
- 1.2 Internal Audit also provide a service to management by giving assurance that there are adequate internal controls in operation, ensuring the proper economic, efficient and effective use of resources, to include the security of assets and data and to assist management in preventing and detecting fraud. This is achieved by the completion of routine system and regularity audits and under a wider remit by value for money and special audits.
- 1.3 2020/21 was the first year that a full internal audit service was planned to be delivered by Stoke-on-Trent City Council including undertaking the role of Chief Internal Auditor as defined by the PSIAS (Public Sector Internal Audit Standards). Unfortunately, this change in service provision happened at the same time as the coronavirus pandemic which had a large impact on the provision of the internal audit service. Unfortunately, it was not possible for any internal audit reviews to be undertaken during the early part of the year and a reduced programme of audits was undertaken during 2020/21 as a whole. This is a similar position for many local

authority internal audit teams. There are a number of reasons for this including internal audit staff undertaking other roles to support the council's pandemic responses and auditees having to prioritise responding to the pandemic ahead of supporting internal audit reviews. In addition, there was added complexity for Newcastle due to the change in internal audit support whilst the country was in lockdown.

- 1.4 During 2020/21, the section continued to contract in specialist external IT audit support for work originally planned to be undertaken during 2019/20 to Information Security Advice Limited. Due to the coronavirus pandemic this work took longer to complete than anticipated and therefore no further IT audit work was undertaken during the year.
- 1.5 As required by the Public Sector Internal Audit Standards, an Internal Audit Charter is required in respect of delivering the Internal Audit Service. The internal audit charter is a formal document that defines internal audit's purpose, authority and responsibility. The charter establishes Internal Audit's position within the organisation, including the nature of the Chief Internal Auditor's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities. It provides a framework for the conduct of the service. The latest version of the Charter has been approved by the Council's Executive Management Team and the Audit and Standards Committee in April 2020.

## 2. Issues

- 2.1 In 2020/21 an annual risk based audit plan was produced and approved by the Audit & Standards Committee in April 2020. The plan took into account the adequacy of the organisations risk management and other assurance processes. The plan outlined the areas that were to be reviewed in 2020/21 in terms of their priority and resources required to undertake them. However, as the coronavirus pandemic was happening and the country was under national lockdown it was highlighted that there were significant risks which could impact on the achievement of the plan.

### Audit Reviews

- 2.2 Due to the reduced capacity to conduct internal audit reviews, a review was undertaken to ensure the areas that represented the greatest risk were undertaken as a priority during 2020/21. Table 1 below shows the audits undertaken during the year and the opinion and number of recommendations made for each.

**Table 1 - Opinions Made 2020/21**

Audit	Level of Assurance	Number of Recommendations			
		High	Medium	Low	Total
Elections	Good (Positive)	0	1	0	1
Health & Safety	Good (Positive)	0	1	1	2
Treasury Management	Good (Positive)	0	0	1	1
Brexit Preparedness	Good (Positive)	0	0	0	0
IT Governance (external)	Reasonable*	1	2	0	3

\* For the external review, reasonable assurance is defined as “The control framework is adequate, but the review identified a number of controls where opportunities exist to improve the effectiveness of the system of internal control.

### 2.3 Opinions are classified as:

**Table 2 – Opinion Definitions**

Level of Assurance	Detailed definition of level of assurance.
Good (Positive)	From the evaluation and testing of the systems examined during 2020/21 there appears to be a <b>good</b> control environment in which all recommendations made by internal audit have been addressed and all agreed actions executed. There are no control issues identified for inclusion in the Annual Governance Statement.
Satisfactory (Positive)	From the evaluation and testing of systems during 2020/21 there appears to be a satisfactory level of control. However, some control failings have been identified which are being addressed by senior managers. Additionally, assurances have been given by the appropriate chief officer(s) that controls are being improved. There are no significant control issues identified for inclusion in the Annual Governance Statement.
Marginal (Neutral)	From the evaluation and testing of systems during 2020/21, a number of weaknesses have been identified, which make it difficult to place reliance on the overall operation of the internal control framework. Assurance has been given by the appropriate chief officer(s) that the actions required to improve the overall adequacy and effectiveness of the City Council’s internal control environment are being taken. This will be recorded in the Annual Governance Statement.
Unsatisfactory (negative)	From the evaluation and testing of systems during 2020/21, a number of significant weaknesses have been identified which make it difficult to place reliance on the overall operation of the internal control framework. Significant actions are required to improve the overall adequacy and effectiveness of the City Council’s internal control environment and will be recorded in the Annual Governance Statement.
Unsound (negative)	From the evaluation and testing of the systems examined during 2020/21, one or more fundamental systems have been identified as having major absences or weaknesses which are not being addressed; and therefore, places the City Council’s internal control environment at risk and will be recorded in the Annual Governance Statement.

2.4 At the end of 2020/21 a number of audits were in progress and had yet to be finalised and issued. These reviews will be completed and reported through the regular quarterly monitoring process. Further details are provided in Table 3 below.

**Table 3 - Work in progress**

<b>Audit</b>	<b>Status</b> (Preparation / Fieldwork / Draft / Since issued)	<b>Comment</b>
Joint Local Plan	On hold	This audit has now been replaced with a Planning Enforcement audit to be undertaken during 2021/22.
Business Continuity	Fieldwork	Delayed due to covid 19 response.
Benefits	Fieldwork	Delayed to due to sickness absence within the benefits team.

#### Status of Recommendations

- 2.5 At the conclusion of every audit, an audit report is issued to management detailing findings of the audit review together with any recommendations required to be implemented to address any weakness identified. During 2020/21, seven recommendations were made (1 high, 4 medium and 2 low) none of which have yet reached their due date.
- 2.6 With regard to previous years, up to the end of March 2021, 255 recommendations had been made, of which 242 have been implemented, which represents 95%; the target for the implementation of all recommendations is 96% by the end of the financial year. Appendix A provides further details.

#### Pro-active Fraud work

- 2.7 The Internal Audit section has taken a proactive approach to the prevention / detection of fraud and corruption. During the year it has continued working with Stoke on Trent City Council on the development of the Staffordshire Counter Fraud Partnership.

#### Internal Audit Opinion 2020/21

- 2.8 The Chartered Institute of Public Finance & Accountancy (CIPFA) produced guidance for Head of Internal Audit Annual Opinions in light of the coronavirus pandemic. This guidance recognised that local government bodies have faced considerable challenges and have had to make difficult decisions on how best to use their available staff and financial resources to meet critical needs. The guidance acknowledges that in this difficult situation, heads of internal audit will need to consider whether they can still issue the annual opinion or whether there will need to be a limitation of scope. A limitation of scope arises where the Head of Internal Audit is unable to draw on sufficient assurance to issue a complete annual opinion in accordance with the professional standards.
- 2.9 The results of the work carried out by internal audit, taken together with other sources of assurance, are not sufficient to support a Head of Internal Audit annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This opinion is a requirement of PSIAS. The results of internal audit work concluded during the year and a summary of where it is possible to place reliance on the work

of other assurance providers is presented in this annual report but this does not result in a comprehensive opinion. This limitation of scope has arisen because of the reasons identified in paragraph 1.3 above.

### 3. **Proposal**

3.1 Any ongoing impact of the coronavirus pandemic will be considered and work will continue to be prioritised according to risk.

### 4. **Reasons for Proposed Solution**

4.1 To avoid similar limitations on the annual opinion in future the Head of Internal Audit plans to ensure the internal audit plan for 2021/22 is monitored on a regular basis to ensure that it is achievable and reflects the key risks affecting the council.

### 5. **Options Considered**

5.1 None.

### 6. **Legal and Statutory Implications**

6.1 The Accounts and Audit (England) Regulations 2015, state that “A relevant authority [the Council] must 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.” (para 5(1)).

6.2 Section 151 of the Local Government Act 1972 states that every local authority should make arrangements ‘for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs’. CIPFA has defined ‘proper administration’ in that it should include ‘compliance with the statutory requirements for accounting and internal audit’.

6.3 The activities of Internal Audit are planned in accordance with the Accounts and Audit Regulations which place a duty upon the Chief Internal Auditor to report to members on a regular basis. By acting upon recommendations within internal audit reports, the council is demonstrating its commitment to maintain an adequate and effective system of internal control, as required by these regulations. Satisfactory delivery of the audit plan assists the Head of Finance (and Section 151 Officer), in discharging her duties under section 151 of the Local Government Act 1972.

### 7. **Equality Impact Assessment**

7.1 There are no equality impact issues identified

### 8. **Financial and Resource Implications**

8.1 The work undertaken during 2020/21 was carried out within the approved budget for Internal Audit. The financial implications resulting from the recommendations made within audit reports are highlighted within individual reports wherever possible. It is the responsibility of managers receiving audit reports to take account of these financial implications, and to take the appropriate action.

9. **Major Risks**

9.1 The key risk to be considered in noting this annual report is the impact of the reduced opinion on the control environment, governance and risk management arrangements and the impact of this for management and the Audit & Standards Committee with regard to the Annual Governance Statement. This risk has been mitigated through the prioritisation of internal audit work and it is pleasing to note reviews undertaken have received positive opinions. The internal plan for 2021/22 aims to ensure that gaps in coverage during 2020/21 are addressed but acknowledges the continuing challenges of undertaking internal audit work in light of the ongoing pandemic. The internal audit team also remain available to provide advice and guidance to services as required.

9.2 Another risk to be considered in noting the attached report is that the independent and objective assurance provided by Internal Audit is, or is perceived to be, compromised. The consequence of which is that opportunities to improve the Authority's system of internal controls, governance framework and the delivery of its objectives are not identified or acted upon. This risk is managed through a combination of the governance and reporting frameworks within which Internal Audit operates and the overview carried out by this Committee. No risks have been identified that are not within acceptable tolerances

10. **UN Sustainable Development Goals and Climate Change Implications**

10.1 There are no sustainability or climate change implications.

11. **Key Decision Information**

11.1 This report is not a key decision as defined by the Council's Constitution

12. **Earlier Cabinet/Committee Resolutions**

12.1 This report is not in reference to previous Cabinet or Committee resolutions.

13. **List of Appendices**

13.1 Appendix A – Summary of Outstanding Recommendations

14. **Background Papers**

14.1 Audit Plan 2020/21