



# **INTERNAL AUDIT ANNUAL REPORT**

## **2021/22**

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## 1. INTRODUCTION

### The Annual Reporting Process

- 1.1 This is the annual report of the Chief Internal Auditor, which sets out the results of the work of Internal Audit for 2021/22. The report has been presented to the Executive Management Team in support of the findings and recommendations, enabling an overall opinion to be provided, which will be included in the Annual Governance Statement for 2021/22.

### Requirement for Internal Audit

- 1.2 The **role of internal audit** is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of a Council's internal control system because it measures and evaluates the adequacy and effectiveness of controls so that:

- Members and senior management can know the extent to which they can rely on the whole system; and
- Individual managers can know how reliable the systems are and the controls for which they are responsible.

- 1.3 Our mission is;

*“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”*

The accepted definition from the Institute of Internal Auditors states:

*“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

- 1.4 The internal control system is comprised of the whole network of systems and controls established to manage the Council to ensure that its objectives are met. It includes financial and non-financial controls, and also arrangements for ensuring that the Council is to achieve value for money from its activities.
- 1.5 The requirement for an Internal Audit function derives from local government legislation including Section 151 of the Local Government Act 1972 which requires authorities to “make arrangements for the proper administration of their financial affairs”. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that a relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.”

## 2. ADEQUACY AND EFFECTIVENESS OF THE INTERNAL CONTROL ENVIRONMENT

### How Internal Control is Reviewed

- 2.1 In 2021/22 an annual risk based audit plan was produced and approved by the Audit & Standards Committee in April 2021. 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 2021/22 in terms of their priority and resources required to undertake them.
- 2.2 This risk based approach to audit planning results in a comprehensive range of audits that are undertaken during the course of the year to support the overall opinion on the control environment. Examples include:-
- system based reviews of all key financial systems that could have a material impact on the accounts e.g. payroll, creditors, council tax and housing benefits;
  - regulatory audits of Council establishments e.g. bereavement services ;
  - systems based reviews of departmental systems/service areas e.g., planning enforcement and safeguarding;
  - corporate reviews e.g. GDPR and risk management
  - a small contingency for special investigations and the provision of ad hoc advice.

### Internal Audit Opinion for 2021/22 and the Annual Governance Statement (AGS)

- 2.3 Regulation 4 of the Accounts and Audit Regulations 2015 requires that:-

*“The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes risk management arrangements.”*

*“The relevant body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall publish a statement on internal control, prepared in accordance with proper practices, with any statement of accounts it is obliged to publish.”*

- 2.4 Internal Audit, along with other assurance processes of the Council, have a responsibility to provide assurance from the work they undertake during the year in respect of the internal control systems operating within the Council.

*From the evaluation and testing of systems during 2021/22 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.*

- 2.5 However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks. These risks are reflected in the audit plan and are the subject of separate reports during the course of the year.

## **Significant Issues**

- 2.6 One report issued 2021/22 had a negative opinion in relation General Data Protection Regulations. At this audit 6 recommendations were made (one high risk, four medium risks and one low risk) with the resultant audit opinion of 'Unsatisfactory'. The key areas which required improvement were in respect of addressing gaps in data protection training, connecting officers with responsibility for GDPR to ensure efficient management and developing performance monitoring to assess and report on key areas of compliance. Further audit work is planned for 2022/23 to ensure issues identified have been resolved.
- 2.7 In addition, the safeguarding audit received a marginal (neutral) opinion. At this audit 7 recommendations were made (no high risk, four medium risks and three low risk) with the resultant audit opinion of 'Marginal'. The key areas which required improvement were ensuring the authority has appropriate material for its own safeguarding training programs, which is accessible and available for staff, and ensuring a programme/schedule is in place, ensuring all new and existing staff's records are updated and maintained when safeguarding training, including refresher training is completed.
- 2.8 Internal Audit will continue to monitor recommendations to ensure appropriate management action is taken to address the weaknesses identified.

## **3. SUMMARY OF INTERNAL AUDIT WORK 2021/22**

- 3.1 The Internal Audit Plan identified 22 audits (including 4 IT audits) to be undertaken in 2021/22. During these reviews the following objectives of internal audit were considered:
- to review and appraise the soundness, adequacy and application of the whole system of internal control;
  - to ascertain the extent to which the whole system of internal control ensures compliance with established policies and procedures;
  - to ascertain the extent to which the assets and interests entrusted to or funded by the Authority are properly controlled and safeguarded from losses of all kinds;
  - to ascertain that management information is reliable as a basis for the production of financial, statistical and other returns;
  - to ascertain the integrity and reliability of information provided to management including that used in decision making, and
  - to ascertain that systems of controls are laid down and operate to achieve the most economic, efficient and effective use of resources.

## **Audits Completed**

- 3.2 During the period April 2021 to March 2022, 10 reports were completed and issued. A summary of the level of assurance for all audits undertaken in 2021/22 and the recommendations made, by risk category, is given in the table below. For further details on audits undertaken during 2021/22 see Table 7A, Appendix A1. A summary chart is also provided at Appendix A2.

**Table 1 – Opinions Made 2021/22**

Assurance	Audits	
	No.	%
Good (Positive opinion)	4	40%
Satisfactory (Positive opinion)	3	30%
Marginal (Neutral opinion)	1	10%
Unsatisfactory (Negative opinion)	1	10%
Unsound (Negative opinion)	0	0%
Without opinion	1	10%
<b>Total</b>	<b>10</b>	<b>100.0%</b>

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 2021/22 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 2021/22 there appears to be a <b>satisfactory</b> 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 2021/22, 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 2021/22, 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 2021/22, 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.

3.3 A total of 34 recommendations were made during 2021/22, recommendations are classified as:

**High Risk** – Action that is considered imperative to ensure that the authority is not exposed to high risks;

**Medium Risk** – Action that is considered necessary to avoid exposure to significant risks;

**Low Risk** – Action that is considered desirable and which should result in enhanced control or better value for money.

The 34 recommendations can be broken down as follows;

**Table 3 – Recommendations Made 2021/22**

Risk	No.	%
High	1	3%
Medium	21	62%
Low	12	35%
<b>Total</b>	<b>34</b>	<b>100%</b>

### Status of recommendations

3.4 Having accepted the recommendations made as a result of internal audit work, senior managers are responsible for ensuring their prompt implementation. From the information provided, the reported status of the (34) recommendations made during 2021/22 shown over.

Status	No.	%
Implemented	7	21%
Not implemented	9	26%
Issued (i.e. not yet reached the due date)	18	53%

**Total**

**34**

**100%**

3.5 In addition, the following prior year recommendations remain outstanding:

<b>Audit Year</b>	<b>Overdue Recommendations Not Implemented</b>
2015/2016	2
2018/2019	2
2019/2020	5
2020/2021	1
<b>Prior Year Total</b>	<b>10</b>
2021/2022 (as above)	9
<b>Total</b>	<b>19</b>

3.6 Recommendations made during 2021/22 will continue to be monitored and information provided by managers is recorded and monitored through to completion.

#### 4 **AUDIT PERFORMANCE**

4.1 In order to monitor performance against the work identified within the annual plan, Internal Audit work is monitored on a regular basis. Table 6 analyses the status of the planned work at the end of March 2022, showing whether the work had been completed/in progress, or has still to be started. Of the planned work identified in the 2021/22 Audit Plan, 86% of the work had either been completed or was underway at the end of March 2022; the remaining 14% was carried forward into 2022/23.

**Table 6 – Summary of Audit Plan 2021/22**

Category	Planned Audits	
	No.	%
Complete	10	45%
In Progress	9	41%
Deferred	3	14%
<b>Total</b>	<b>22</b>	<b>100%</b>

4.3 Audit reports were produced continually throughout the year. A schedule of reports issued was produced on a quarterly basis and presented to the Audit Committee. Not all areas of work originally scheduled for 2021/22 were completed within the year. The outstanding work has been:

- Deferred to 2022/23, in which case it will be scheduled into the appropriate quarter of the plan, or
- Subject to a reassessment of risk and the work reclassified, or
- Deemed no longer applicable.

4.4 At the end of 2021/22 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 8, Appendix A2.



## **5. FRAUD & IRREGULARITY WORK**

### **Pro-active Fraud work**

- 5.1 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.

### **Fraud/Irregularity Investigations**

- 5.2 No allegations have been received through the Council's Confidential Reporting or Antifraud and Bribery frameworks in the year.

### **National Fraud Initiative Data matching**

- 5.3 The Council is a statutory participant in the Cabinet Office's National Fraud Initiative (NFI) exercise which is carried out every 2 years. The most recent matches have recently been received and are being reviewed by the relevant departments.

## **6. REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT**

- 6.1 The Public Sector Internal Audit Standards (PSIAS), which came into force in April 2013; updated August 2017, apply across the whole of the public sector and provide a framework for internal audit which:
- defines the nature of its work;
  - sets out its basic principles;
  - aims to improve organisational processes and operations; and
  - forms a basis to evaluate its performance.
- 6.2 Local authorities must demonstrate their compliance with the new standards. Compliance against the Standards is to be subject to periodic self-assessment, supplemented by an external assessment conducted at least once every 5 years. In 2017, an external review of the internal audit service was undertaken by CIPFA. The review concluded that Internal Audit is effective and conforms sufficiently to the requirements of PSIAS to ensure that the opinion given in the Annual Report can be relied upon for assurance purposes. Plans are being prepared to undertake a further review in 2022.
- 6.3 In order to ensure the quality of each audit, each report is subject to a review by a more senior auditor. This process forms part of the internal quality assurance process and helps to ensure a consistent approach between auditors.

## **7. NON AUDIT AREAS**

- 7.1 This is work undertaken by the Internal Audit Section that is not directly related to audit areas and includes administration, supporting the corporate management of the authority, professional and staff training.

## **8.0 OPERATIONAL PLANS FOR 2022/23**

- 8.1 Internal Audit will continue to identify ways to actively promote awareness of risks in relation to fraud and corruption in line with the national strategy 'Fighting Fraud Locally'. Training and awareness will continue to be raised across the organisation.

- 8.3 The service will continue to review and improve its service where appropriate. It will also ensure that adequate training is provided and the role of the Audit and Standards Committee is developed in line with best practice.

Table 7A - Summary of Issued Reports 2021/22

Audit	Level of Assurance	Number of Recommendations			
		High	Medium	Low	Total
IT Needs Assessment	With Opinion	0	0	0	0
Benefit Services Health Check	Good (Positive)	0	0	0	0
General Data Protection Regulations	Unsatisfactory (Negative)	1	4	1	6
Bereavement Services	Satisfactory (Positive)	0	6	3	9
Business Continuity (Covid-19 National Emergency)	Good (Positive)	0	2	1	3
Health & Safety	Good (Positive)	0	1	1	2
General Ledger	Satisfactory (Positive)	0	1	3	4
Safeguarding	Margin (Neutral)	0	4	3	7
Treasury Management	Good (Positive)	0	0	0	0
Cyber Security	Satisfactory (Positive)	0	3	0	3
<b>Total</b>		<b>1</b>	<b>21</b>	<b>12</b>	<b>34</b>

Table 8 - Work-in-Progress as at 31 March 2022

<b>Directorate</b>	<b>Audit</b>	<b>Status</b> (Preparation / Fieldwork / Draft / Since issued)
Chief Executives	Payroll	Fieldwork
	Council Tax / NNDR	Issued – Good opinion
	Purchase to Pay	Preparation
	Income Collection	Preparation
Regeneration and Development	Planning Enforcement	Fieldwork
Corporate	Procurement and Contract Management	Fieldwork
	Risk Management	Draft
IT Audit Assurance	Home Working	Fieldwork