



| Classification | Item No. |
|----------------|----------|
| Open | |

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|--|---|
| Meeting: | Audit Committee |
| Meeting date: | 17 th November 2020 |
| Title of report: | Internal Audit Progress Report – July to September 2020 |
| Report by: | Acting Head of Internal Audit |
| Decision Type: | Council |
| Ward(s) to which report relates | All |

Executive Summary:

This report sets out the progress to date against the annual audit plan 2020/21. The report enables Members to monitor the work of the Internal Audit service, raise any issues for further consideration and also provide an opportunity to request further information or to suggest areas for additional or follow up work.

The conclusions drawn from the report are:

- The majority of work outstanding from the 2019/20 plan has now been completed and work on 2020/21 plan is progressing. Seventeen reports have been issued to Members since the beginning of the financial year.
- In order to ensure that effort is not duplicated, and to allow third party assessments to take place, some audits have been postponed and will if needed, be undertaken at a later date. The postponement of audits has created a contingency of days which means staff can be utilised to cover other works which were at risk of being deferred due to staff sickness absence and an unexpected level of management support being required early in the financial year.
- The recommendations made in the external review of Internal Audit are being addressed in line with the agreed action plan presented to Audit Committee in July 2020.

Recommendation(s)

That:

- Members note this report and the work undertaken by Internal Audit;
- Members seek clarification / challenge any parts of the report / audit reports which have been presented to Committee.
- Members endorse the changes to the audit plan which are detailed at paragraph 1.1.7 and 1.1.8.
- Members note that a report will be brought to the January 2021 Committee regarding the Business Rates Grants which have been paid out in response to COVID19 (paragraph 1.1.10).

Key Considerations

1. Background

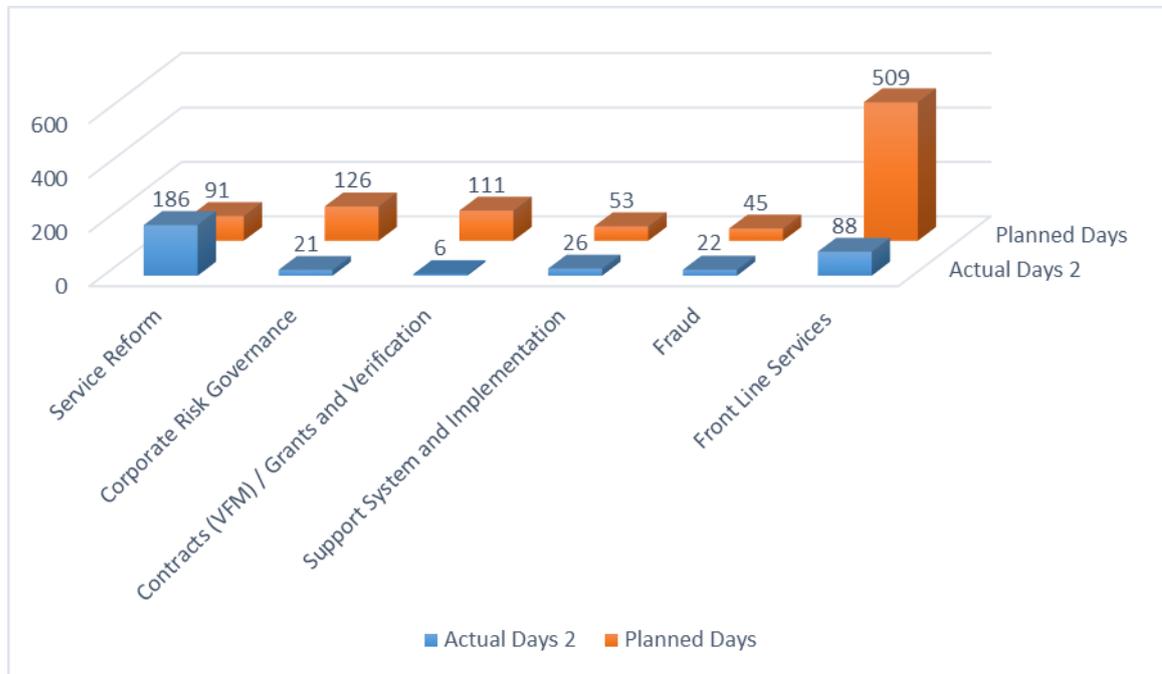
- 1.1 This report outlines the work undertaken by Internal Audit between 1st July 2020 and 30th September 2020.
- 1.2 Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Internal Audit plays a vital role in reviewing whether these arrangements are in place and operating properly and providing advice to managers. On behalf of the Council, Internal Audit review, appraise and report on the efficiency, effectiveness and economy of these arrangements and provide assurance to the organisation (Chief Executive, Executive Directors and the Audit Committee) and ultimately the taxpayers, that the Council maintains an effective control environment that enables it to significantly manage its business risks. The service helps the Council achieve its objectives and provides assurance that effective and efficient operations are maintained.
- 1.3 The assurance work culminates in an annual opinion given by the Head of Internal Audit on the adequacy of the Council's control environment, based on the work undertaken, and this opinion which feeds into the Annual Governance Statement.
- 1.4 The Internal Audit Plan for 2020/21 provided for 935 days to be delivered throughout the 2020/21 year across all Council Departments, and group companies i.e. Six Town Housing and Persona. The Audit plan covers a range of themes. The plan was approved by Audit Committee at the meeting on 2 June 2020 and work has been continuing throughout the year to date. Regular progress reports are produced, informing Members of audit activities, and this is the second report of the 2020/21 financial year covering the period from 1st April 2020 to 30th September 2020 and includes 26 completed weeks. The report for the first quarter of the year was presented to Audit Committee on 30th July 2020.

2.0 ISSUES

2.1 Audit Plan – Update for the 2020/21 financial year:

2.1.1 Work on the 2020/21 plan has progressed and 349 days, 37% of planned days, have been delivered. The chart below shows the planned and actual days for each activity area.

1st April to 30th September – Internal Audit Days Planned and Actual Days



2.1.2 The audit days delivered is less than expected at this point in the year, with 37% of the total days for the year having been delivered. This is slightly lower than comparable periods in previous years where on average, approximately 46% of the plan has been achieved.

2.1.3 In addition to the 935 day plan to deliver audit work, there are also provisions set aside for non-audit activities, annual leave, sickness, training and management. When comparing to previous years the position on these Audit days are higher than normal for this time of year. This is due to comparatively higher sickness levels. The table below sets out comparative data.

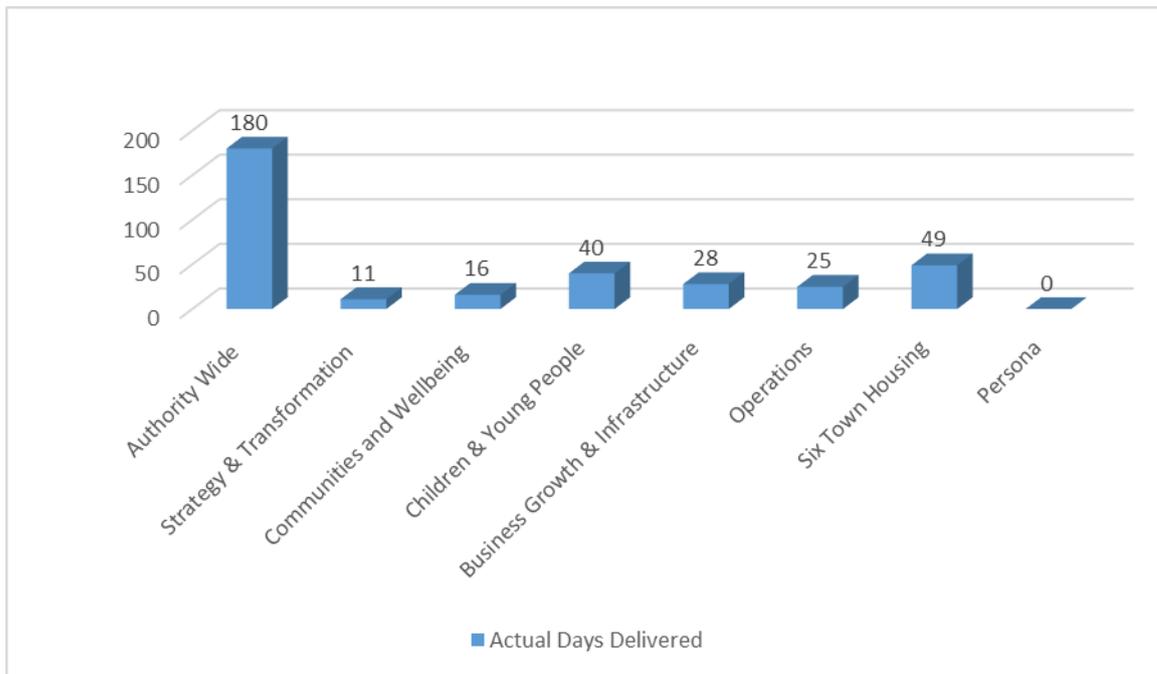
Non Audit Activity Days - Comparative Data.

| | | Percentage of planned days used | | |
|--------------|-------|--|----------------|----------------|
| | | 2020/21 | 2019/20 | 2018/19 |
| Internal | Audit | 37% | 50% | 44% |
| Reviews | | | | |
| Annual leave | | 60% | 48% | 38% |
| Sickness | | 100% | 0% | 15% |

| | | | |
|----------|-----|----|-----|
| | | | |
| Training | 20% | 0% | 29% |

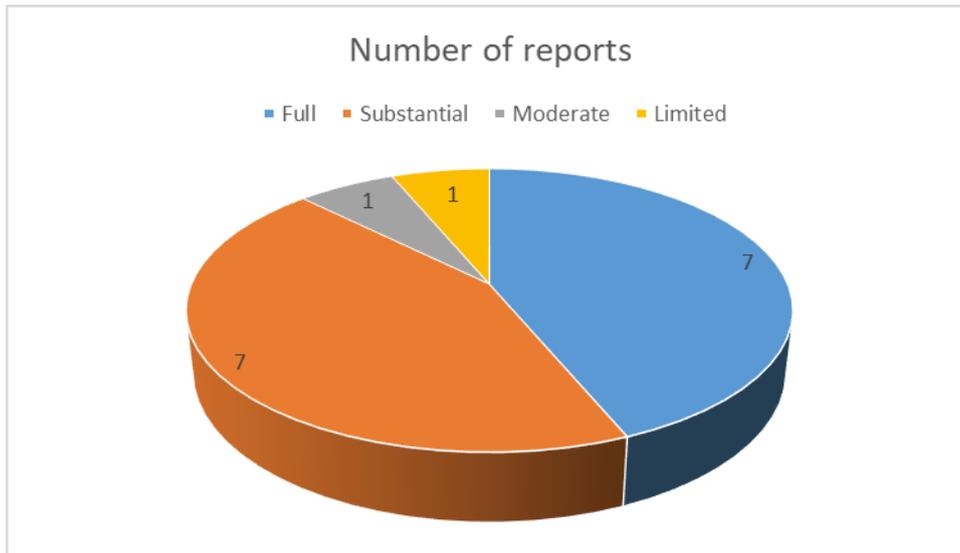
2.1.4 However it is planned to use the contingency of days which has become available as some work identified for quarter 2 has been postponed (further details are shown at paragraph 2.1.7) and these days can be utilised to deliver the remainder of the audit plan. There has also been an increase in expected management support this year which is reflective of the team's positive response to COVID 19, sickness absence and support to the wider organisation.

2.1.5 The 349 actual Internal Audit days has been delivered across the various departments:-



2.1.6 A list of reports issued in the second quarter of 2020/21 is set out at Appendix A. In summary, 16 reports have been issued, with the majority of audits receiving an overall opinion giving full or substantial assurance for the control areas reviewed. There were a total of 60 recommendations in the reports, none of which require disclosure for the governance statement. Summary audit reports, have been circulated to Audit Committee Members. The summary reports are exempt from publication as they may contain information which is likely to reveal the identity of an individual or information relating to the financial or business affairs of any particular person (including the Authority).

Number of assurance levels given in Audit reports.



2.1.7 Detailed progress of the audit plan is provided at Appendix B. Since the last meeting of the Audit Committee the majority of outstanding work from 2019/20 has now been completed and reports have been issued to Members. The majority of reviews planned for quarter 1 and 2 have commenced and reports are either issued in draft, are with clients, awaiting a response to the recommendations made, or work is currently being undertaken. It is expected that the reports for these reviews will be completed and presented to the next Audit Committee in January 2021.

2.1.8 Some reviews earmarked to be undertaken in quarter 2 have been postponed. Four audits have been deferred as external reviews have been / are being undertaken and the internal audit reviews would not add any value if they were undertaken at this time. These external reviews when completed, will be examined and if they provide assurance that the risks identified in the audit plan have been addressed then the reviews as planned will not be undertaken. There may be scope to visit any recommendations made in the reviews to ensure that Management are addressing those recommendations, to provide assurance to Audit Committee Members that the risks have been addressed. The four audits which have been deferred are:- Risk Management and Assurance Framework, Contract register, Six Town Housing Client Management Arrangements and Persona Client Management Arrangements.

A further quarter two audit, Taxi Licencing, has been deferred as the timing is inappropriate as the client is heavily involved in enforcement of COVID 19 restrictions. It is expected that this audit will be deferred to the next financial year.

2.1.9 In addition to the postponement of quarter two reviews, the plan has been revised to take account of operational issues being experienced due to departments reacting to COVID 19. It is proposed that the following reviews which were planned for quarter 3 and quarter 4 are changed:-

- Operations Department Income review (30 days) should be cancelled as this review is no longer required in 2020/21 due to many of the income collecting services being closed as a result of COVID.
- Operations reviews regarding Grounds Maintenance (15 days) and Highways and Footways Maintenance (20) should be merged into one review of 15 days given the common themes between the two audits.

2.1.10 Internal Audit provided support during the closure of the final accounts for 2019/20. Work was undertaken by Internal Audit to ensure that the value of assets (land and buildings) recorded in the accounts accurately reflects the information in the Council's property portfolio records, and additionally, that the property records accurately reflect the supporting valuation documents. The work has been completed with feedback being provided to the client.

2.1.11 At the beginning of the financial year audit time was redirected to providing support to the business grants process that needed to be established in response to the Government announcing grants of £10k and £25k to eligible businesses. Given the urgency, value and volume of payments, audit support in establishing the processes and ensuring an effective control framework was in place was considered necessary given the potential risks associated with the activity.

2.1.12 The Business Rates Team paid out £39.7m (3422 grants) and £2m discretionary grants were paid out by the Economic Development Team. To date 106 cases have been progressed for more detailed examination. There is a risk that should further grant funding be announced by the Government work may be required to investigate claims which include checks undertaken by the Counter-fraud team and checks to a database set up by the Cabinet Office. It is proposed that a further detailed report is presented to Committee in January 2021.

Throughout the year to date, in response to requests from Departments, other various pieces of minor advice have been given on an ad-hoc basis.

The contingency built into the plan for unplanned work has now been used. Advisory work will continue to be undertaken, and at this stage it is proposed that days available due to deferring of other topics are utilised for this purpose. The position will continue to be monitored throughout the year.

2.1.13 It was reported at the last Committee in July 2020 that an external review of Internal Audit had recently been undertaken. This made recommendations for the service to address and an action plan was provided to Committee. Progress is now being made to implement the recommendations and this is detailed at Appendix C. Several recommendations are being addressed on an ongoing basis and further specific action has been undertaken to commence a review of the Service Level Agreement with Six Town Housing and a review of the Internal Audit Performance Indicators. Additionally the internal audit structure is under review as part of a wider review of the Corporate Finance Team, internal audit reports have changed and are now clearer and shorter, supporting working papers on file have been changed to enable an easier more effective review process to take place. The new style of report and working papers are now becoming embedded within the team.

2.2.1 Follow up audits

- 2.2.1 All recommendations made by Internal Audit are followed up within six months of the final report being issued to determine progress made to address audit recommendations made. Clients are required to make a self- declaration on the action taken to address recommendations and where appropriate, to provide evidence of the action undertaken. Details of any fundamental or significant recommendations which have not been implemented are brought to the attention of Audit Committee members.
- 2.2.2 A list of follow up audits undertaken since the last update to audit Committee in June 2020 is set out at Appendix D. Seven follow up reviews have been undertaken and copies of follow up reports are available on request.
- 2.2.3 One significant recommendation has not yet been implemented. A recommendation was made to ensure that obsolete stock held at the Transport Stores was reviewed and disposed of. This recommendation has not yet been implemented due to the impact of COVID 19 and staff being required to work in the garage to keep vehicles on the road. Management have given their assurance that the recommendation should be implemented by the end of October 2020.

Community impact / Contribution to the Bury 2030 Strategy

Ensuring compliance with Financial Procedures and Policies

Equality Impact and considerations:

24. *Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:*

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;*
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;*
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.*
25. *The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services.*

Assessment of Risk:

The following risks apply to the decision:

| Risk / opportunity | Mitigation |
|---|--|
| Risks are highlighted in Audit Plans and in the terms of reference for each Audit review. | Internal Controls are reviewed in each audit to mitigate identified risks. Actions are reported to managers and progress is monitored and reported on a regular basis. |

Consultation:

N/a

Legal Implications:

The Council must have a sound system of internal control which facilitates the effective exercise of its functions, including risk management. This is both a legal requirement and a requirement of the Financial Regulations set out in the Council's Constitution. This report provides information on the work of the Council's Internal Audit Service, in ensuring compliance.

Financial Implications:

There are no financial implications arising from this report. The work of the Internal Audit Service however supports the governance framework and the work on business grants has also ensured that the risk of fraud to the Council is minimised.

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Background papers:

Internal Audit Plan 2020/21

Internal Audit Reports issued throughout the course of the year.

CPFA C Co report – Review of Internal Audit

Please include a glossary of terms, abbreviations and acronyms used in this report.

| Term | Meaning |
|------|-----------------------------|
| NNDR | National Non Domestic Rates |