



Classification	Item No.
Open	

<b>Meeting:</b>	Audit Committee
<b>Meeting date:</b>	21 <sup>st</sup> July 2021
<b>Title of report:</b>	Internal Audit Annual Report 2020/21
<b>Report by:</b>	Sam Evans Executive Director of Finance (S151 Officer)
<b>Decision Type:</b>	Council
<b>Ward(s) to which report relates</b>	<b>All</b>

### **Executive Summary:**

This report 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.

The conclusions drawn from the report are:

The impact of COVID19 on public services during 2020/21 has been considerable. It has resulted in significant change to planned priorities and a requirement to focus resources on those critical activities essential to the pandemic response and recovery.

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

### **Recommendation(s)**

**That:**

- Members note the contents of this report.

## Key Considerations

Background information to this report is contained in the context section of the main report. There are no decisions required for this report.

## Community impact / Contribution to the Bury 2030 Strategy

Ensuring compliance with Financial Procedures and Policies

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### 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.*

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### Assessment of Risk:

The following risks apply to the decision:

<b>Risk / opportunity</b>	<b>Mitigation</b>
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.

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### Consultation:

    N/a    

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### 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.

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**Financial Implications:**

There are no financial implications arising from this report. The work of the Internal Audit Service supports the governance framework.

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**Report Author and Contact Details:**

Janet Spelzini, Acting Head of Internal Audit,  
Tel: 0161 253 5085  
Email: j.spelzini@bury.gov.uk

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**Background papers:**

Internal Audit Plan 2020/21  
Internal Audit Progress reports 2020/21

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

Term	Meaning
NNDR	National Non Domestic Rates
GDPR	General Data Protection Regulations

# **Internal Audit Annual Report**

## **2020/21**

“Providing assurance on the management of risks”



## **Internal Audit Annual Report 2020/21**

### **“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 audit work undertaken during the year my opinion is that the Authority’s control environment provides substantial 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 role in reviewing whether these arrangements are in place and operating properly and providing advice to managers and assurance to the organisation, Chief Executive, Executive Directors, S151 Officer, the Audit Committee and ultimately the taxpayers that the Council maintains an effective control environment that enables it to manage its significant business risks. On behalf of the Council, Internal Audit review, appraise and report on the efficiency, effectiveness and economy of these arrangements. The assurance work culminates in an annual opinion on the adequacy of the Authority’s control environment which feeds into the Annual Governance Statement.

Internal Audit is required by professional standards to deliver an annual 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 impact of Covid19 on public services during 2020/21 has been considerable. It has resulted in significant change to planned priorities and a requirement to focus resources on those critical activities essential to the pandemic response and recovery.

For internal auditors it has raised the question of whether they will be able to undertake sufficient internal audit work to produce a reliable independent assurance assessment. This is a key consideration to fulfil the requirement of the Public Sector Internal Audit Standards (PSIAS) for the Head of Internal Audit to issue an annual opinion

on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This opinion is also one of the sources of assurance that informs the Annual Governance Statement.

The Chartered Institute of Public Finance and Accountancy (CIPFA) recognised that public service bodies were struggling with considerable challenges and having to make difficult decisions on how best to use their staff professional and regulatory expectations including the need for internal audit arrangements conform with PSIAS. In response to this challenge CIPFA issued guidance for Head's of Internal Audit and those charged with governance on the factors they would need to consider in issuing an annual opinion.

Possible options that were suggested included:

- not providing an opinion for 2020/21;
- providing an opinion but confirming that the scope was limited to the outcome of audit work completed or particular aspects of governance risk management or internal control;
- providing an opinion explaining in more detail the other sources of assurance taken into account in reaching the opinion; or
- providing a standard annual opinion.

This guidance has been discussed in professional network groups including the North West Chief Audit Executives Group. Colleagues largely agreed that it was still possible to provide an opinion albeit this would need to explain the basis for the opinion, to acknowledge that this was not a robust basis for future audit practice and that a resumption of planned audit work was essential to raise and maintain organisation standards of good governance, risk management and internal control.

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## **Internal audit work during 2020/21**

The underlying principle to the 2020/21 plan was risk and accordingly audits were only completed in areas that represent an 'in year risk'.

The methodology adopted in preparing the plan, and the plan itself, were approved by the Audit Committee on 2 June 2020.

Since the original plan was approved, several planned audits were not undertaken. This was due to a variety of reasons:-

- Audits included in the plan were postponed as independent reviews had been separately commissioned and the audit review would have not added value at this time;
- Audits included in the plan were deferred as the clients were not able to support audit reviews at the time, due to diverting their resources to respond to the COVID19 pandemic;
- Audit resources were limited throughout the year, in response to the COVID 19 pandemic, the team were diverted to provide support to a priority 1 service, to assist with the administration of Business Grants and Self-Isolation Grants.

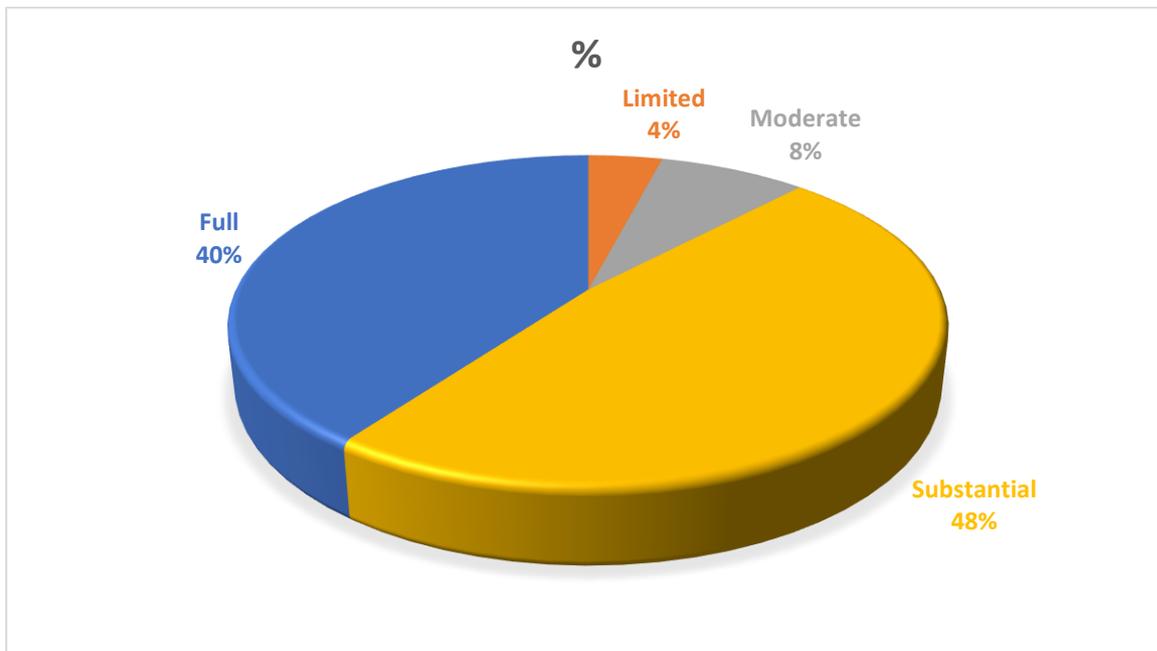
Variations to the plan during the year are inevitable if the plan is to adequately reflect changing circumstances and the changing organisation. The net effect is that although the work undertaken during the year was different to that anticipated 12 months ago, some of the agreed audits have been completed, or are substantially complete and in the process of being finalised. This work will be carried forward in the 2021/22 annual audit plan.

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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 will be 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 Committee has received regular reports during the year summarising audits undertaken.

As shown in the following chart the outcome of 88% of audits completed in 2020/21 are positive having provided a substantial or full level of assurance to the areas examined. There are however a proportion of audits where controls were considered to be moderate. Most of these relate to specific areas rather than represent an across the board breakdown in controls but there are some topics which may have a wider impact. There was one report which was considered to give a limited level of assurance, a positive management response was received to indicate the recommendations would be addressed. To provide some assurance going forward, additional time has been added into the 2021/22 audit plan to carry out follow up audits and to evidence that recommendations have been actioned. The key issues arising from all audits have been reported to the Audit Committee throughout the year.



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

The Council, and local government generally, continues to face significant challenges, including the ongoing financial challenges and the need to deliver savings. The Council has also undergone some restructuring and it is important that controls and governance remain in place and that there is an understanding of responsibilities and accountabilities. The COVID19 pandemic has resulted in a significant change in the way some services are delivered, with a lot of work now being delivered by employees who have been required to work from home. This has seen an increase of the use of digital technology and processes in many areas have had to be adapted and improved, in particular with records having to now be stored and made accessible in an electronic manner.

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.

During the year 110 recommendations were made to address weaknesses in control which would not have been identified if the audit had not been undertaken. All of the recommendations made were accepted by management and positive responses were received to indicate that they would be implemented.

Recommendations are followed up to ensure that they are implemented and details of all follow-up reviews undertaken are provided to Audit Committee. Those recommendations showing as "Outstanding" are therefore subject to scrutiny by Audit Committee Members who may call in managers to explain delayed progress where appropriate. Details of audits which were followed up during 2020/21 are provided at Appendix 2.

The existing process only involves 1 follow up in respect of outstanding actions and no subsequent tracking if these have not been undertaken. The process for monitoring and implementation of recommendations and arrangements during 2021/22 will be reviewed as this is seen as a key part of internal control. This will provide a sharper focus in the future that will aid the internal audit function and promote and instil principles of good governance across the council.

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## Schools

Individual school reviews were not undertaken in 2020/21. A new approach was undertaken, with a thematic approach being adopted to look at topics within schools. This approach will be reviewed in 2021/22 to ensure that an adequate level of audit coverage and assurance is being provided. A School Assurance Board has been established, and the first meeting is scheduled for 21st July 2021.

The annual accounts for a small number of School Voluntary funds and Out of School Care Clubs were examined, as requested by the schools. Additionally, a request for a piece of work was also undertaken for an Academy. A small fee was collected for these pieces of work.

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## Summary of non-assurance work

### Special investigations

The size and complexity of the 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. Internal Audit assisted with / advised Human Resources regarding disciplinary issues as well as providing advice to Departments regarding suspected irregularities. The significant issues arising were reported to the Audit Committee during the year.

Suspected frauds can be reported to our dedicated whistleblowing hotline 0161 253 6446 or by email to [Whistleblowing@bury.gov.uk](mailto:Whistleblowing@bury.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 advice was requested for a small number of issues. Audit support was also provided to ensure an effective control framework was

established and in place to administer the Business Grant funding awarded by the Government for distribution to Businesses affected by the COVID 19 pandemic.

Internal Audit also 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.

Work is continuously undertaken to ensure that Departments are aware that they should approach Internal Audit as a consultancy resource and a contingency is to be built into the annual audit plan for 2021/22 so that resources are available to meet any consultancy requests.

## **Certification**

Audit can be required to certify grant claims. There were no grant claims submitted for audit certification during 2020/21.

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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 2016. The report of that assessment concluded that the audit service "partially conformed to the expectations of the Public Sector Internal Audit Standards." Work since then has been undertaken to address the recommendations made. The review is due to be undertaken again in 2021/22.

To assist with planning for the 2021/22 review and to guide the development of the Internal Audit Service, a high level review of internal audit was commissioned. This report noted that it had identified that the Internal Audit Team are keen to deliver an effective compliant service within the Council, however, there are a number of historical, operational and cultural factors within both the team and the wider Council that inhibit the effectiveness of the team. The report included a series of recommendations and action has been taken to address these throughout 2020/21. Internal audit reports have been refreshed, and audit processes have been reviewed and changes have been made, particularly with the internal review process and challenge to the findings in reports, and with client engagement. As the new processes are beginning to embed, there has been a slower turnaround of audit reports, and reviews have taken longer than the original target time provided for in the annual plan, however the quality of the resulting reports has improved. Further actions to address the findings of the commissioned review are still required and the audit plan for 2021/22 will include a time

resource to ensure that developments needed within the service are addressed.

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. Post audit questionnaires are not issued when an investigation is undertaken or if the audit is undertaken by an external partner.

The post audit questionnaire responses returned continue to evaluate the audit process and value of reports as excellent / good. All feedback received has been positive and no negative feedback or comments have been received. During 2020/21 7 questionnaires were sent out and all were returned.

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 Greater Manchester and nationally. The Service has a membership to the Institute of Internal Auditors providing its staff with technical and professional support. At a regional level there are networking opportunities for auditors specialising in schools, ICT, contracts and fraud. 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 Authority can be confident that a good quality Internal Audit service continues to be provided.

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## Opinion

The impact of COVID19 on public services in 2020/21 has been considerable. It has resulted in significant change to planned priorities and a requirement to focus resources on those critical activities essential to the pandemic response and recovery.

For internal auditors it has raised the question of whether they will be able to undertake sufficient internal audit work to produce a reliable independent assurance assessment. It is the responsibility of the 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:

- Audit plan and other audit and assurance and advisory work completed in 2020/21; and audit work from prior years where systems or processes have not been subject to change.
- 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 (this is not applicable in 2020/21 as management accepted all recommendations and there were no fundamental recommendations in year);
- the effect of non-assurance work undertaken during the year; and
- 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.

For 2021/22 the Internal Audit Plan confirms resumption of planned audit work in key risk areas. Some of this will remain linked to the COVID19 response and recovery but will provide direct assurance over a range of other organisational risks.

I am satisfied that sufficient internal audit work has been undertaken to allow me 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 by Internal Audit during the year my opinion is that the Authority's governance, control and risk management provides substantial assurance that the significant risks facing the Authority are addressed.

## Appendix A

### Summary of audits completed during the year and total number of recommendations made.

Audit		Level of Assurance	Report Date	Total number of recs made	No of Fundamental recs made
	<b>Bury Council</b>				
1	Vehicle Workshop	Full	July 2020	0	0
2	Building Controls	Inadequate (See note at end of appendix 1)	August 2020	11	0
3	Creditors Childrens Services	Substantial	August 2020	6	0
4	Childrens Services Purchase Cards	Substantial	August 2020	8	0
5	Cash and Bank Key Controls	Substantial	August 2020	2	0
6	Treasury Management Key Controls	Full	August 2020	1	0
7	Housing Benefit Key Controls	Full	August 2020	0	0
8	Debtors Key Controls	Substantial	August 2020	5	0
9	Main Accounting Key Controls	Substantial	August 2020	4	0
10	Council tax Key Controls	Full	August 2020	0	0
11	Housing Rents Key Controls	Full	August 2020	1	0
12	Creditors Key Controls	Substantial	August 2020	4	0
13	NNDR Key Controls	Substantial	August 2020	5	0
14	PCI DSS Compliance (Review by Salford Computer Audit Services)		June 2020		0
15	School Meals Income	Full	October 2020	1	
16	Budget Setting and Monitoring in Schools	Substantial	April 2021	2	0
17	GDPR	Moderate	May 2021	24	0
18	Adoption Services	Substantial	June 2021	3	0
19	Pupil Premium Grant	Full	June 2021	2	0
	<b>Six Town Housing</b>				
20	Planned Maintenance and Major Works	Full	September 2020	5	0

21	GDPR	Substantial	June 2020	7	0
22	Fire Safety	Moderate	September 2020	9	0
23	Risk Management Process	Full	August 2020	3	0
24	Debtors Key Controls	Substantial	October 2020	1	0
25	Treasury Management	Substantial	May 2021	3	0
	<b>Persona</b>				
26	Debtors Key Controls	Full	October 2021	3	0

- Inadequate – this is the opinion level which was used in the old grading system used before the report formats were changed. The report has now been classified as Limited for reflection in this report and for taking into account in the year end annual opinion.

## Summary of follow ups completed during the year.

		Report date	Recs made	Recs accepted	Follow up date	Recs implemented
	<b>Bury Council</b>					
1	Debtors System	August 2019	8	8	Jul 2020	7
2	Treasury management Key controls	June 2019	2	2	July 2020	2
3	Cash and Bank Key Controls	July 2019	1	1	Oct 19	1
4	Council tax Key Controls	August 2019	3	3	Sep 19	3
5	Housing Benefit Key Controls	August 2019	1	1	May 2020	3
6	NNDR Key Controls	August 2019	1	1	June 2020	2
7	St Pauls Primary School	July 2019	15	15	July 2020	12
8	Main Accounting Key Controls	September 2019	4	4	April 2020	3
9	Bury Support Fund	November 2019	1	1	April 2020	0
10	CRC Energy Scheme	October 2019	1	1	May 2020	1
	<b>Six Town Housing</b>					
11	Damp and Condensation	November 2019	5	5	April 2020	5
12	Complaints Procedures	November 2019	3	3	April 2020	3

