



Classification	Item No.
Open	

Meeting:	Audit Committee
Meeting date:	25 th July 2022
Title of report:	Internal Audit Annual Report 2021/22
Report by:	Sam Evans Executive Director of Finance (S151 Officer)
Decision Type:	Council
Ward(s) to which report relates	All

Executive Summary:

This report summarises the results of internal audit work during 2021/22 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 2021/22 continued to have an impact resulting in changes 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 moderate 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

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:

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 supports the governance framework.

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Background papers:

Internal Audit Plan 2021/22
Internal Audit Progress reports 2021/22

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

2021/22

“Providing assurance on the management of risks”



Internal Audit Annual Report 2021/22

“Providing assurance on the management of risks”

This document summarises the results of internal audit work during 2021/22 and, as required by the Accounts and Audit Regulations 2015, gives an overall opinion of the Authority’s control environment.

Opinion

Based upon the results of audit 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.

Context

This report outlines the work undertaken by Internal Audit between 1 April 2021 and 31 March 2022.

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 since the middle of March 2020 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. The Internal Audit Team have embraced the council's hybrid working programmes and adapted their approach to internal auditing in response, however, the impact of COVID 19 has resulted in an interruption to routine audit work and the capacity of services to work with Internal Audit in several areas, which has affected completion of the internal audit planned work for 2021/22.

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.

In 2020/21 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 was 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. Whilst the audit service has now returned to business as usual, this was not in effect from the 1st April 2021 as two members of staff were redeployed to support the work in business rates of making payments to businesses affected by the pandemic and making self-isolation payments to individuals entitled to grant assistance. There is still an ongoing cumulative impact from the pandemic, and there have been other issues which have seen a reduction in audit coverage in 2021/22. Therefore, the same principles have been adopted when providing an opinion for the 2021/22 financial year.

Internal audit work during 2021/22

The underlying principle to the 2021/22 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, was presented to the Audit Committee on 21st July 2021.

Since the original plan was presented to Audit Committee, several planned audits were not undertaken. This was due to a variety of reasons which include: -

- Capacity of services to work with Internal Audit whilst responding to the impact of COVID 19 pandemic.
- Re-prioritisation of Internal Audit reviews due to commissioning of external reviews with similar themes.
- Audit reviews undertaken taking more time than anticipated, with wider scopes being introduced for reviews and a deeper level management review process. However, this has produced higher quality reports which add more value to the service and aid improvement of governance processes within the organisation.
- Planned audit time to complete outstanding work from 2020/21 was underestimated.
- Contingency days for fraud / investigation / management requests was underestimated.

In addition, the Audit Team have been operating at a reduced capacity due to staffing changes: -

- Two team members being deployed to assist a priority 1 service to administer and process self-isolation grant applications.
- One team member leaving the team in January 2022.
- One team member embarking on professional qualification training in September 2022.
- Higher than expected sickness levels within the team.

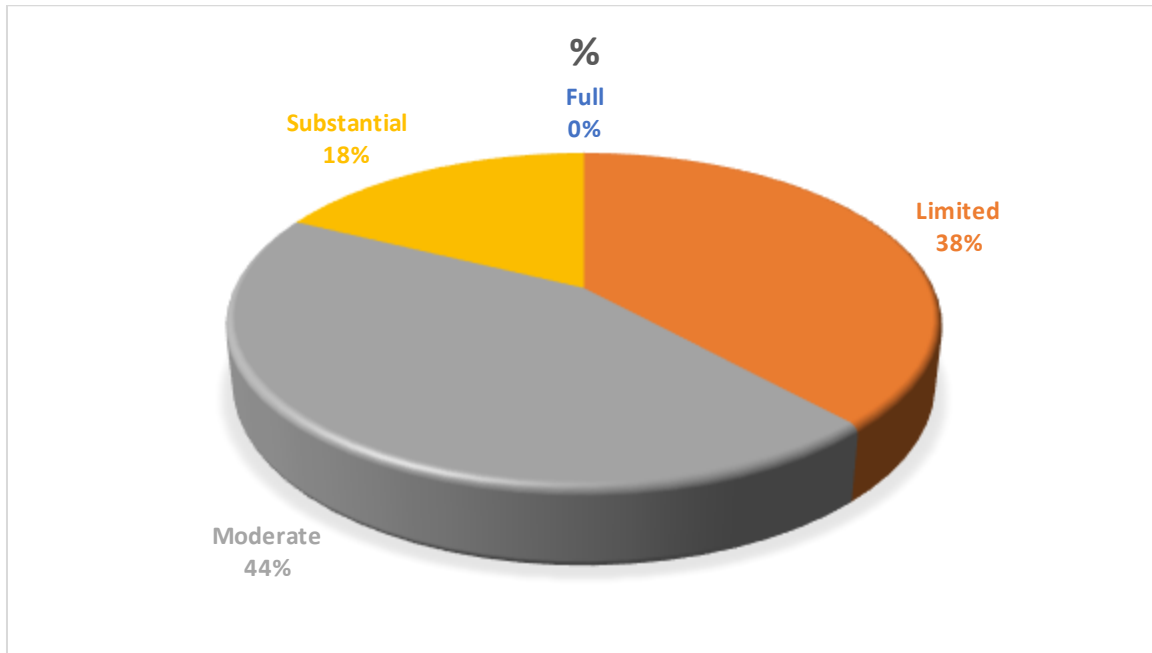
A restructure of the Finance Department is currently taking place and it is anticipated that the audit team capacity will increase, later in 2022/23, on agreement and implementation of a revised structure.

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 2022/23 annual audit plan.

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 18% of audits completed in 2021/22 are positive having provided a substantial 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 were 13 reports which were considered to give a limited level of assurance, a positive management response was received to all reports to indicate the recommendations would be addressed. To provide some assurance going forward, additional time has been added into the 2022/23 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, in addition to the impact on service delivery in terms of both increased costs and lost income. The Council has continued in 2021/22 to go through restructuring and it is important that controls and governance remain in place and that there is an understanding of responsibilities and accountabilities. Regularly updated forecasts of income and expenditure pressures against the available funding were provided internally through the council's monitoring framework. The Council has had its 2020/21 Statement of Accounts signed off by the external auditors which creates a significant level of assurance.

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 220 recommendations were made to address weaknesses in control which would not have been identified if the audit had not been undertaken. All 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.

Follow up exercises for reports with limited assurance should be undertaken within 3 months of the final report being issued to client. Follow up exercises for all other reports should be undertaken within six months after the final reports have been issued to the client. However, due to staff vacancies and the requirement of the team to respond and undertake whistleblowing investigations, the follow up targets were not met during 2021/22. It is anticipated that follow up exercises will be brought up to date in 2022/23, when the service restructure has been completed and additional resource is made available to the Audit Team.

Details of audits which were followed up during 2021/22 are provided at Appendix B.

The existing follow up process only involves 1 follow up in respect of outstanding actions and no subsequent tracking if these have not been undertaken. Further work is required to strengthen this area and this will be developed in 2022/23.

Schools

Individual school reviews were not undertaken in 2021/22. A new approach was introduced in 2020/21, with a thematic approach being adopted to look at topics within schools. This approach was continued throughout 2021/22. Arrangements are in place to undertake a full audit at a school if requested by the Director of Childrens Services, or the Executive Director of Finance. A School Assurance Board has been established, and this is attended by a representative from the Internal Audit Team, and therefore advice and support can be provided as it is requested.

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

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.

In 2021/22, no information regarding special investigations was submitted to Audit Committee. There were however, two investigations, which are being finalised, which are to be brought to the Committee's attention, and

further details are to be provided in the Audit Committee meeting on 25th July 2022.

Suspected frauds can be reported to our dedicated whistleblowing hotline 0161 253 6446 or by email to 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 payments of self-isolation grant funding awarded by the Government for distribution to individuals affected by the COVID 19 pandemic.

Internal Audit also provided support to transformation work, such as advising around changes being made to main financial systems, e.g. i-trent system (payroll) and provided support to the accountancy team who are looking to reduce petty cash balance across the Council.

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 2022/23 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 2021/22.

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 January 2023.

To assist with planning for the 2022/23 review and to guide the development of the Internal Audit Service, a high level review of internal audit was commissioned in 2020/21. 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, and 2021/22. 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 2022/23 will include a time resource to ensure that developments needed within the service are addressed, and to provide for a self - assessment to be undertaken before the external review takes place in January 2023.

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.

In previous years the post audit questionnaire responses returned continued to evaluate the audit process and value of reports as excellent / good. All feedback received was positive and no negative feedback or comments had been received. During 2020/21, 7 questionnaires were sent out and all were returned. For 2021/22, whilst allowing the new working style of audit to embed, and to allow services to continue to respond to the impact of the pandemic, audit questionnaires were not issued. These are to be reinstated for 2022/2023.

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.

Opinion

The impact of COVID19 on public services in 2020/21 was considerable, and continued into 2021/22. Additionally, the Council is going through a period of transformation, which includes changes to governance processes as well as revisions to staffing structures. Whilst going through a period of change there is a knock on effect which results in significant change to planned priorities and a requirement to focus resources on those critical activities essential to the pandemic response and recovery, and to areas where more risks are perceived to be.

For internal auditors it has raised the question of whether they are 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 2021/22; 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 2021/22 as management accepted all recommendations).
- 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 2022/23 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 moderate 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
Included in annual opinion 2020/21 – so not included in 2021/22					
Bury Council					
	Budget Setting and Monitoring in Schools	Substantial	April 2021	2	0
	GDPR	Moderate	May 2021	24	0
	Adoption Services	Substantial	June 2021	3	0
	Pupil Premium Grant	Full	June 2021	2	0
Six Town Housing					
	Treasury Management	Substantial	May 2021	3	0
Reports to include in annual opinion for 2021/22					
Bury Council					
1	Pooled Budgets	Substantial	May 2021	1	0
2	Purchase Cards	Moderate	August 2021	12	0
3	Car Allowances	Moderate	August 2021	11	0
4	Integrated Equipment Store	Limited	August 2021	22	3
5	Members Allowances	Moderate	August 2021	4	0
6.	Creditors Key Controls	Limited	October 2021	6	1
7	Housing Benefit and Council Tax Support Key Controls	Moderate	October 2021	2	0
8	NNDR Key Controls	Moderate	October 2021	6	0
9	Grounds Maintenance Procurement	Moderate	September 2021	5	0
10	Health and Safety	Limited	November 2021	15	2
11	Members Discretionary Budgets	Limited	November 2021	4	2
12	Debtors Key Controls	Limited	October 2021	7	1
13	Cash and Bank Key Controls	Limited	November 2021	4	1
14	Main Accounting Key Controls	Limited	November 2021	9	1

15	Council Tax Key Controls	Moderate	November 2021	6	0
16	Payroll Key Controls	Moderate	October 2021	13	0
17	HEN Accomodation Team – Petty Cash	Moderate	October 2021	6	0
18	Mobile Phones	Substantial	October 2021	3	0
19	Treasury Management	Substantial	November 2021	3	0
20	GM Supporting Families	Substantial	November 2021	2	0
21	Leisure Centre Income	Limited	June 2022	9	1
22	Taxi Licencing	Moderate	March 2022	2	0
23	Residential Placements	Moderate	June 2022	2	0
24	Choices for Living Well (Killelea) Petty Cash	Limited	July 2022	9	3
25	Estates	Limited	July 2022	16	7
	<u>Six Town Housing</u>				
26	Procurement Repairs and Maintenance	Limited	September 2021	6	1
27	Payroll	Substantial	September 2021	2	0
28	Data Quality	Limited	September 2021	7	1
29	Fraud Business Controls	Limited	August 2021	5	1
30	Fire Safety	Moderate	February 2022	4	0
31	Housing Rents Key Controls	Substantial	February 2022	3	0
32	Electrical Safety- Furnished Properties	Moderate	February 2022	3	0
33	Electrical Safety – Un furnished Properties	Moderate	February 2022	6	0
	<u>Persona</u>				
34	Payroll	Moderate	January 2022	5	0

Appendix B

Summary of follow ups completed during the year.

		Report date	Recs made	Recs accepted	Follow up date	Recs implemented
	Bury Council					
1	Cash and Bank Key Controls 2019.20	June 2020	2	2	July 2021	2
2	Treasury Management Key Controls 2019.20	August 2020	1	1	July 2021	1
3	Payroll Key Controls 2019.20	March 2021	5	5	July 2021	None implemented. Report made 2 significant and 3 merits attention recommendations. – all recommendations repeated in review of 2020/21 key controls
4	Debtors Key Controls 2019/20	August 2020	5	5	July 2021	4 implemented, 1 recommendation (merits attention) repeated in review of 2020/21 key controls
5	Main Accounting Key Controls 2019/20	August 2020	4	4	July 2021	1 implemented, 3 recommendations (all merits attention) repeated in review of 2020/21 key controls
6	Creditors Key Controls 2019/20	August 2020	4	4	July 2021	2 implemented, 2 recommendations (merits attention) repeated in review of 2020/21 key controls
7	NNDR Key Controls 2019.20	July 2020	5	5	July 2021	1 implemented, 4 recommendations (2 significant and 2 merits attention)

						repeated in review of 2020/21 controls
8	Purchase Cards	August 2021	12	12	January 2022	12
9	Car Allowances	August 2021	11	11	January 2022	11
10	Pupil Premium	June 2021	2	2	January 2022	2
11	Health and Safety	November 2021	16	16	February 2022	16
12	GDPR	May 2021	24	24	May 2022	24
	Six Town Housing					
13	Debtors Key Controls	October 2020	1	1	February 2022	1
14	Treasury Management	March 2021	3	3	February 2022	3