

Report title	Annual Internal Audit Report 2020-2021	
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Report to be/has been considered by	Not applicable	

Recommendation for noting:

The Audit and Risk Committee is asked to note:

1. The contents of the Annual Internal Audit Report and the overall opinion that “based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Council by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes”.

1.0 Purpose

- 1.1 The purpose of this report is to provide the Audit and Risk Committee with an annual internal audit opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control processes.

2.0 Background

- 2.1 This report gives a brief description of the role of Internal Audit, the control environment within which it operates, its compliance with the Public Sector Internal Audit Standards and a summary of the work carried out during the year to 31 March 2021.

3.0 Progress, options, discussion, etc.

- 3.1 Quarterly internal audit update reports will continue to be presented to the Committee throughout the year.

4.0 Financial implications

- 4.1 There are no financial implications arising from the recommendation in this report. [GE/13072021/G]

5.0 Legal implications

- 5.1 There are no legal implications arising from the recommendation in this report. [TC16072021/I]

6.0 Equalities implications

- 6.1 There are no equalities implications arising from the recommendation in this report.

7.0 All other implications

- 7.1 There are no other implications arising from the recommendations in this report.

8.0 Schedule of background papers

- 8.1 There is no schedule of background papers.

Internal Audit Annual Report 2020-2021



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COUNCIL

1. *Introduction*

Our internal audit work for the period from 1 April 2020 to 31 March 2021 was carried out in accordance with the approved Internal Audit Plan. The plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Council's governance, risk management and control processes. In this way our annual report provides one element of the evidence that underpins the Annual Governance Statement the Council is required to make to accompany its annual financial statements. This is only one aspect of the assurances available to the Council as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the council may rely, could include:

- The work of the External Auditors (Grant Thornton)
- The result of any quality accreditation
- The outcome of any visits by Her Majesty's Revenues and Customs (HMRC)
- Other pieces of consultancy or third party work designed to alert the Council to areas of improvement
- Other external review agencies (i.e. Ofsted, the Information Commissioner's Office)

As stated above, the framework of assurance comprises a variety of sources and not only the Council's internal audit service. However, Internal Audit holds a unique role within a local authority as the main independent source of assurance on all internal controls. Internal Audit is therefore central to this framework of assurance and is required to acquire an understanding not only of the Council's risks and its overall whole control environment but also all sources of assurance where appropriate.

In this way, Internal Audit will be able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of that assurance. Also, consideration of the Council's ethics and activities, and information technology governance is implicit in all internal audit activity.

The definition of internal audit, as described in the Public Sector Internal Audit Standards, is "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".

Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter.

Executive Summary

As the providers of internal audit to the Council, we are required to provide the Chief Executive and Section 151 Officer with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Chief Executive and Section 151 Officer is reasonable assurance that there are no major weaknesses in the council's governance, risk management and control processes. We have taken into account:

- All audits undertaken for the year ended 31 March 2021.
- Any follow-up action taken in respect of audits from previous periods.

- Any key recommendations not accepted by management and the consequent risks.
- Any limitations which may have been placed on the scope of internal audit.
- The Council's Strategic Risk Register as presented regularly to the Audit and Risk Committee.

Internal Audit Opinion

We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

Based on the work undertaken during the year - taking into account the Covid-19 statement below, the implementation by management of the recommendations made and the assurance made available to the Council by other providers as well as directly by Internal Audit, we can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes.

In reaching our opinion, the following factors were taken into particular consideration:

- We have had unfettered access to all records and employees during 2020-2021.
- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance, identified as a result of our audit work performed in year are detailed later in this report.
- While stand-alone reviews of governance and risk management are not undertaken, consideration of both these issues are implicit in all internal audit work. Similarly, assurance is gained from the regular review of the Council's Strategic Risk Register as presented at each meeting of the Audit and Risk Committee, and through the 'calling-in' of certain risks by the committee for a more detailed review.
- The below statement on the impact of Covid-19 on the audit plan.

Covid-19 Statement

A report was presented to the Audit and Risk Committee in June 2020 informing the Committee that the UK Public Sector Internal Audit Standards Advisory Board had produced guidance to support audit functions during Covid-19. This stated that all internal audit teams in organisations affected by Covid-19 would need to reassess their work plans and staff priorities.

This also set out that for public sector internal auditors there was an additional responsibility as all staff in a public service body have a responsibility to work in the public interest. At a time of national crisis there was a need to act in the best interests of the health, safety and livelihoods of the public as well as supporting the operational needs of the organisation. As a result very few internal audit teams would be operating under 'business as usual' conditions. At the very least they would be doing the majority of work remotely, and staff in many teams were likely to be taking on different roles to support their organisation and the public interest.

At the Council a significant proportion of the audit resources during 2020-2021 was temporarily redeployed to other areas of the Council's business in order to provide support in a number of critical areas including:

- The food distribution hub
- Helping to administer the wide range of business support grants provided by Central Government – including reviewing and assessing applications, payment uploads, reconciliations, monthly returns and introducing a pre and post assurance framework
- Undertaking supplier due diligence checks with Procurement regarding the supply of personal protective equipment (PPE)
- Sense checking other Covid-19 related support and grant package returns

The committee were informed that in order to reflect the in-year change in risk profile for the Council and to facilitate the shift in resources, a consultation exercise had been undertaken with the senior management team and the internal audit plan revisited to ensure that the audit resource is focussed in the most effective manner. As a result of that exercise, it was agreed with the senior management team and later the Audit and Risk Committee that a number of audit reviews that initially featured in the 2020-2021 audit plan, would be put back until 2021-2022, where they will again fall into the assessment of assurance needs exercise.

While not fundamental to the overall opinion, we also gave a '**limited assurance**' rating as a result of our internal audit work in the following areas:

<ul style="list-style-type: none">• Procurement Compliance Review
<ul style="list-style-type: none">• Professional Conversation Process

Further details on each of these limited assurance reports were presented to the Audit and Risk Committee during the year, and are included later in this report.

Governance issues arising from the Annual Governance Statement

The Council recognises that the identification, evaluation and monitoring of risks is a key aspect in the governance of the organisation. The following matters represent the most significant current governance issues that are subject to attention in order to ensure that good practice is embedded:

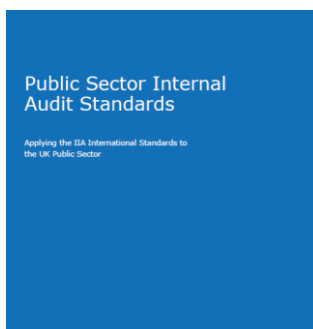
<ul style="list-style-type: none">• Savings targets
<ul style="list-style-type: none">• Procurement
<ul style="list-style-type: none">• Contract Monitoring
<ul style="list-style-type: none">• Strategic Asset Plan
<ul style="list-style-type: none">• Civic Halls
<ul style="list-style-type: none">• Constitution Review

Further details on each of these can be found in the 2020-2021 Annual Governance Statement that was presented to the Committee on 21 June.

Key risks the Council faces

The key risks the Council faces in delivering its outcomes are captured in a Strategic Risk Register which is updated as and when the risk profile of the Council changes, and is reported to the Audit and Risk Committee on a regular basis. During the year, and in response to the pandemic, an additional Covid-19 Risk Register was also produced, and again reported to the committee.

Compliance with the Public Sector Internal Audit Standards



The internal audit service follows the Public Sector Internal Audit Standards, and the Code of Ethics that form part of the standards, as laid out in the internal audit charter approved by the Audit and Risk Committee. The quality assurance and improvement programme and last self-assessment identified no major non-conformances with these standards.

Summary of work completed

A detailed written report and action plan is prepared and issued for every review where appropriate. The responsible officer will be asked to respond to the report by completing and returning an action plan. This response must show what actions have been taken or are planned in relation to each recommendation.

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Year on year comparison

A total of 24 pieces of audit work have been completed during the year in which an audit opinion has been given. A summary of the audit opinions given, along with a comparison over previous years, is set out below:

Opinion	2020-2021	2019-2020	2018-2019
Substantial	15	9	18
Satisfactory	7	18	23
Limited	2	4	6

Direction of travel

As can be seen the number of limited levels of assurance has reduced when compared to the previous two years (albeit it against a reduced number of audits in 2020-2021 as a result of Covid-19 and as referred to elsewhere in this report).

2 Summary of audit reviews completed

The following audit reviews were completed during the 2020-2021 financial year.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
2019/20 audits carried forward in 2020/21 as a result of Covid-19 and which feed into the 2020/21 audit opinion							
Fixed Assets	High	-	1	-	1	1	Satisfactory
City North Gateway M54 Junction 2 Project Management	Medium	-	-	-	-	-	N/A - advisory
Accounts Receivable	High	-	1	1	2	2	Satisfactory
Main Accounting (General Ledger and Budgetary Control)	High	-	-	5	5	5	Substantial
Fixed Assets	High	-	-	-	-	-	Substantial
Local Taxes (Council Tax and NNDR)	High	-	-	1	1	1	Substantial
Housing Rents	High	-	-	-	-	-	Substantial
Housing Benefits	High	-	-	-	-	-	Substantial
Accounts Payable	High	-	-	1	1	1	Substantial
2020/21 Audits							
Senior Officer Emoluments	High	-	-	-	-	-	N/A
Sundry Debtors - Bad Debt Due Diligence	High	-	-	-	-	-	N/A
Licensing - Private Taxi Hire	Medium	-	2	-	2	2	Satisfactory
Blue Badges Grant Certification	Medium	-	-	-	-	-	N/A
Mayor's Charity Trust Independent Examination	-	-	-	-	-	-	N/A
Transport Grant Certifications	Medium	-	-	-	-	-	N/A

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Eclipse System - Project Governance Review	Medium	-	-	-	-	-	N/A
SEND Safer Recruitment and Single Central Record	Medium	-	-	-	-	-	N/A - advisory
Garden Waste Service	Medium	-	1	-	1	1	Satisfactory
Procurement Compliance Review	Medium	2	3	1	6	6	Limited
Children's Residential Homes – Compliance with Working Time Legislation	Medium	4	1	2	7	7	N/A - Consultancy
Professional Conversation Process	Medium	3	2	1	6	6	Limited
Children's No Recourse to Public Funds (NRPF) and Section 17 Payments	Medium	-	2	-	2	2	Satisfactory
ConnectEd – Council's Supervisory Role	Medium	-	2	3	5	5	Satisfactory
2020/21 Troubled Families Grant Claim	High	-	-	-	-	-	Substantial
2020/21 Key Financial System Reviews:							
Main Accounting System (General Ledger and Budgetary Control)	High	-	1	-	1	1	Substantial
Payroll	High	-	-	1	1	1	Substantial
Accounts Receivable	High	-	1	2	3	3	Satisfactory
Accounts Payable	High	-	-	-	-	-	Substantial
Fixed Assets	High	-	-	-	-	-	Substantial
Treasury Management	High	-	-	2	2	2	Substantial
Housing Benefits	High	-	-	3	3	3	Substantial
Local Taxes (Council Tax and NNDR)	High	-	-	3	3	3	Substantial
Housing Rents	High	-	-	-	-	-	Substantial

Key:

AAN - Assessment of assurance need.

N/A - Consultancy type assignments where an opinion on the control environment is not the main focus of a review.

3 On-going assurance work where reports are not issued

It is a requirement of the Internal Audit Charter that Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. If individual auditors are extensively consulted during system, policy or procedure development, and independence could be seen as being compromised, or if they have had previous operational roles, they will be precluded from reviewing and making comments during routine or future audits, for the remainder of that financial year and for the following financial year after their involvement. Therefore, should any reviews be conducted on the below, then they will be led by another member of the audit team.

Project/Programme	In the original audit plan?	Audit Service's Role
Information Governance	Yes	A member of the team sits on the Council's Information Governance Board in the capacity of providing advice and support.
Pay Strategy	Yes	A member of the team sits on the Council's Pay Strategy Board. The purpose of the board is to ensure that all requests in respect pay and grading is approved in accordance with the Council's Collective Agreement for NJC employees.
Project Assurance Group	Yes	A member of the team is involved in this group. The purpose of the group is to ensure that all of the Council's projects and programmes, recorded through the Verto system, are reviewed and scrutinised.
Delivering Independent Travel Programme	Yes	A member of the team sits on the Programme Board as Independent Programme Lead. During the lifecycle of the programme on-going advice is provided on the governance, risk management and, programme and project management arrangements.
Schools Fire Safety Working Group	Yes	A member of the team sits on the Board in the capacity of providing advice and support.
Business Support Programme	Yes	A member of the team sits on the Board in the capacity of providing advice and support. The programme's main objective is the centralisation of administration within the Council.

Project/Programme	In the original audit plan?	Audit Service's Role
City Learning Quarter Programme	Yes	Audit Services have been invited to provide an assurance role for the programme. This is a major capital investment project which has a reputational risk to the Council.
Agresso Board	Yes	A member of the team sits on this Board to oversee the on-going development of the Council's enterprise resource planning (ERP) solution.
Children's Transformation Board	Yes	A member of the team attends the Board and provides support and assurance on project management arrangements and specific audit issues. This also includes advice and support on the implementation of the new Eclipse management information system.
Transform Adult Social Care Programme	Yes	A member of the team attends the Board to provide support and assurance on project management arrangements and specific audit issues.
Transport Asset Group	Yes	A member of the team is involved in this group. The purpose of the group is to ensure that business cases submitted by business areas for vehicles and equipment replacement are reviewed and assessed prior to approval, as well as addressing future Council Fleet requirements and climate targets for a cleaner environment and reduction in carbon emissions, and future use of electric / hybrid vehicles.
HR Improvement Programme	Yes	The purpose of this programme is to review current Human Resource systems, processes and procedures to drive out efficient service improvements. A member of the team sits on the Board to provide support and assurance around changes proposed in order to ensure risks are managed and controls are not compromised.
Civic Halls Operational Board	Yes	A member of the team is a representative on this group. The purpose of the board is to oversee the operational delivery of the Civic Halls full refurbishment.

Project/Programme	In the original audit plan?	Audit Service's Role
Infrastructure for Growth Board	Yes	The purpose of this group is to oversee the strategy of regeneration projects across the city to ensure there is a co-ordinated joined up approach. A member of the team is present on this board to provide support and assurance around governance.
NHS Social Care Digital Programme	New	A member of the team attends the Board to provide support and assurance on project management arrangements and specific audit issues.
Our Assets Board	New	The purpose of this Board is to provide a strategic overview of how the Council manages its current assets. A member of the team attends the Board to provide support and assurance on project management arrangements and any specific audit issues.
Local Fibre Network Programme Board	New	The purpose of this Board is to oversee the implementation and roll-out of a new fibre network across the city, which will enable superfast broadband. A member of the team attends the Board to provide support and assurance on project management arrangements and any specific audit issues.
Art Gallery Improvements Scheme Board	New	The purpose of this Board is to provide a strategic overview of the building improvements to the City's Art Gallery. A member of the team attends the Board to provide support and assurance on project management arrangements and any specific audit issues.
Adult Eclipse Project Board	New	A member of the team will attend the Board to provide support and assurance on project management arrangements for the new Eclipse management information system and any specific audit issues.

4 *Counter Fraud Activities*

The Audit Service's team investigate all allegations of suspected fraudulent activity, during the year. Details of these will be presented to the Audit and Risk Committee in a separate report, along with details of initiatives put in place in order to both raise awareness of, and tackle fraud across the Council.

5 *Key issues arising from our work completed during the year*

No significant issues were identified during the first quarter of the year.

We brought the following matters to the attention of the Committee in December 2020, in our quarter 2 update report

Eclipse System - Project Governance Review

The existing care management and financial system, CareFirst, has been used in Children's and Adults Services since 2008 and had become somewhat outdated and did not interface well with other systems. In May 2017 Cabinet (Resources) Panel gave approval to enter into a contract with OLM Systems Ltd to implement the Eclipse Care system for a total cost of £2.9 million. A project was established to work in partnership with the external supplier (OLM) to deliver a cloud hosted integrated system, that supported the work of both Adult's and Children's Services. A Programme Board was established which was responsible for driving the programme forward and delivering the project outcomes and benefits.

Our audit provided a health check review of the programme's project management and governance arrangements to ensure they were being delivered in accordance with the Council's approved methodology. Where the review identified areas for action, these were reported back to the Board to be addressed.

We brought the following matters to the attention of the Committee in March 2021, in our quarter 3 report

Procurement Compliance Review

Following issues raised by the Head of Procurement, we reviewed a sample of contracts to ensure they were conducted in accordance with the Council's Contract Procedure Rules. A limited assurance rating was awarded due to the lack of evidencing of various stages of the process resulting in poor audit trails.

While there was nothing to suggest contracts had been awarded incorrectly or that procurement legislation had not been followed, records such as conflict of interest forms (completed by officers involved in each procurement exercise) and contract award forms were not always being completed and held on file. Similarly the Accord Contracts Register was not being completed each time a procurement exercise commenced, there were three different systems maintained for the storage of procurement exercise documentation – again reducing the clarity of the audit trail, and there was scope for improving the internal checks carried out both during and at the end of each procurement exercise.

The contents of the report were discussed and agreed with the Head of Procurement, and an action plan has been put in place to address the issues identified.

Children's Residential Homes – Compliance with Working Time Legislation

This was a consultancy review that was requested in year. The scope of the review was to analyse the working hours (contractual hours and additional hours) to ensure staff located at children's residential homes were complying with working time legislation. The review identified some issues around the monitoring of time as staff were working between sites. Following the findings of the report a new system has been put in place to monitor employee's time across both sites, and shift rotas have been revisited to ensure working time legislation is not compromised.

There was one limited assurance report issued during the final quarter of the year (quarter 4), which relates to the following:

Professional Conversations Process

The Professional Conversations process was introduced in September 2020 to replace the previous employee performance appraisal scheme. Under the new process there is a requirement that all employees receive at least four professional conversations over a rolling 12-month period with their manager. There is also a requirement that the conversation is documented, and copies kept locally by both the manager and employee. Professional Conversations are a mandatory process that both managers and employees are expected to undertake. As there is no longer a requirement to record the completion of conversations centrally on Agresso, Audit Services were requested to undertake periodic reviews to monitor compliance with this new process. Our first review noted that:

- 75% of employees, who had received a Professional Conversation, found the new process was an improvement on the previous performance appraisal scheme.
- 90% of employees stated their overall conversation had been positive and supportive.
- Managers who had carried out a Professional Conversation said that they found the process positive.

However, while acknowledging that the new process had been introduced during the Covid-19 pandemic and where a significant number of employees were working from home, we did identify the following issues:

- Large number of employees who had yet to receive a professional conversation.
- Employees were not always aware of the new professional conversation process.
- The guidance documentation on the Council's intranet pages still referenced to the previous appraisal process.
- As service areas have the flexibility to create their own forms, this had led to inconsistencies in the process and core elements not always being discussed during the conversations.
- Low uptake in the attendance of Professional Conversation online training.

In order to further embed the new process, it was agreed to use the leadership teams to reinforce the importance of the new process, undertake a new communications campaign, update the intranet site to ensure all policies, guidance, and supporting documentation was easily accessible to managers and employees, keep a watching eye on the templates being used to ensure they cover the core elements of the process and that consideration be given to making the Professional Conversation training mandatory. A follow up review is now underway and an update will be provided at the next Audit and Risk Committee meeting.

Key Financial Systems

A review of all the key financial systems has been completed as part of this year's audit plan. For each review the core controls in terms of the meeting the objectives for each system were reviewed and tested. No significant issues were identified in any of the reviews. As part of each review we also looked at changes in controls in response to Covid-19. The main change was replacing wet signatures with email approvals.

Follow up of previous recommendations

We continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit and Risk Committee.

At the time this report was produced the following two audits were in process of being completed, and will therefore be reported as part of the quarter one update report for 2021-2022:

- IR35 Compliance Review
- Adult Education External Funding

6 *Audit and assurance effectiveness measures*

Our performance against the following Audit and Assurance effectiveness measures, that were prepared around the successful delivery of the audit service, is as follows:

Audit Plan measures	
Audit reports identifying suggested areas for action, issued to auditees within two weeks of completion of fieldwork.	Approximately 80% of audit reports were issued within two weeks of the completion of audit fieldwork.
Number of audits where time taken to complete assignment is more than 10% longer than planned.	Approximately 55% of reviews took 10% longer than anticipated, with the others completed either on target or under. In most cases, this was as a result of the audit team working from home and adapting to completing all of the 2020-2021 audits remotely, alongside other unforeseen issues that can arise which take time to resolve. However, we will continue to seek to improve on the time taken in completing such reviews.
Delivery of at least 80% of the audit plan, and an opinion which provides suitable assurance on the overall governance, risk management and control environment.	As referred to elsewhere in this report, as a result of Covid-19 the audit plan was subject to revision during the course of the year. The changes to the plan were highlighted to the Audit and Risk Committee at its meeting in December 2020. While over 80% of the revised plan was delivered, obviously the originally intended pre-Covid audit plan was not.
Risk Based Audit Plan produced and available to the Council in advance of the year.	The Audit Plan was approved by the Audit and Risk Committee prior to the commencement of the new plan year.
Recommendations measures	
90% of recommendations accepted by Council management.	All recommendations made in the year were accepted by Council management.
Number of key recommendations followed up, implemented by the council by the target date.	The majority of previous key recommendations followed up had been implemented within the agreed date. Where not, these are reported back to the Audit and Risk Committee throughout the year.
Relationships measure	

Positive feedback from completed client satisfaction surveys and other sources.	No negative feedback was received during the year. However, we are looking to re-introduce a more formal way of obtaining and analysing feedback during the year.
External Audit measure	
External Audit use the work of internal audit to help inform their own work.	No issues have been raised by the External Auditors on the work of Internal Audit.

7 *Key Partnerships and Audit Resourcing*

Audit Services have recently recruited two apprentices under the National Apprenticeship Programme, and they will also be studying towards obtaining the Chartered Institute of Internal Audit qualification. We have also commenced a recruitment exercise for a temporary post in order to backfill a post for an officer working on secondment for the West Midlands Pension Fund. We are also to undertake a benchmarking exercise with our near-neighbours regarding the size and composition of the audit team, taking into account that we also provide the internal audit service for:

- West Midlands Pension Fund
- West Midlands Combined Authority
- Wolverhampton Homes
- WV Living

Each of these have their own Audit Committee, or equivalent, which we report directly to.