

Internal Audit Annual Report

Summary

To provide an annual review of Internal Audit for the financial year 2020-21 and an opinion from the Executive Head Finance on the adequacy of the Council's systems of internal control

Portfolio: Finance

Wards Affected: N/A

Recommendation

The Audit and Standards Committee is asked to note the 2020-21 annual Audit Report.

1. Key Issues

- 1.1 The Public Sector Internal Audit Standards require local authorities to report on the work of internal audit on an annual basis. Section 151 officers should also provide a written report to those charged with governance. The aims of the report are to:
- provide an opinion on the overall adequacy and effectiveness of the Council's control environment and risk landscape;
 - disclose any qualifications to that opinion, with reasons; and
 - present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies; and highlight any significant matters arising.
- 1.2 This audit report compliments some of the findings reported in the Annual Governance Statement for 20/21.

2. Resource Implications

- 2.1 There are no resource implications arising from this report

3. Supporting Information

Annual Review of Internal Audit Work for 2020/21

- 3.1 The Internal Audit work programme is directed by the 3-year Audit Strategy as well as the annual Audit Plan. The annual Plan is agreed at Member level annually.
- 3.2 For the period 2020-21 a total of 17 internal audits were completed from the Audit Plan. In addition a number of ad hoc pieces of work were undertaken, the details of which can be found in the annexes appended to this report. Weaknesses in control and areas for improvement are reported to management through internal audit

reports. Areas for improvement are identified through audit recommendations ranging from best practice (lowest category) to essential (highest category).

- 3.3 Audit has also been involved in numerous other Council activities during the year including participating in a number of corporate officer working groups including the equalities action group, the risk management group, as well as the Elections officer project group. Audit has also been active in helping to develop the team's business continuity and emergency plans as well as co ordinating and supervising the authorised signatories process, and reviewing compliance over contract standing orders, and the Council's financial regulations.
- 3.4 It should be noted that the Audit work programme was heavily impacted by the Covid-19 pandemic with a result that all the audit team were re deployed in Quarter 1 2020/21 to help with the pandemic response and the welfare work.
- 3.5 The internal audit team operates 4 levels of audit assurance for its internal audit reports, as below:

Level of assurance	Definition
FULL(green)	Controls are strong and being fully complied with, service is continually developing and offering added value, business objectives are being met and exceeded
SUBSTANTIAL(green)	There is basically a sound system of control, but some minor areas of weakness have been identified, which may put some of the systems objectives at risk
LIMITED (amber)	The weaknesses in the system of control are such as to put some of the system objectives at risk, and may affect council income or expenditure
NIL (red)	There are limited or no controls in place. The service poses a significant risk to the Council and there is a risk that business objectives are not met

- 3.6 In practice the vast majority of audits score either substantial or limited assurance, as full assurance would only be offered where the entire population is tested rather than just a sample, and audits scoring nil assurance would need to demonstrate little or no checks and balances in place or nil compliance and typically this would normally be addressed at management and CMT level before any audit is undertaken.
- 3.7 Audit recommendations are given one of three categories namely essential, desirable, or best practice.

Essential – normally require immediate attention to address substantial weaknesses and ensure council business objectives are met; could result in financial loss; non-compliance with statutory guidance/legislation

Desirable – contribute to maintaining an effective control environment and ensure policies and procedures are met; help to ensure council priorities and milestones are met; short term implementation

Best Practice – industry best practice suggestions; help to improve overall control and efficiency; assist management deliver services; medium to long term implementation

3.8 In total 86 audit recommendations were raised in 2020-21:

- 16 essential
- 70 desirable
- 0 best practice

Resources and staffing

3.9 There were a total of 430 working days in the budget available to the audit team for 20/21. Obviously a number of these days were taken to assist with the welfare work and helping the vulnerable residents of the borough, most of Quarter 1.

Overall Opinion of the Executive Head Finance

3.10 The overall opinion of the Section 151 Officer is that the Council’s internal control framework is adequate and effective and is being managed with due care and attention. The audit coverage is proportionate to the risk environment of the Council and the audit resources available.

Compliance with the Public Sector Internal Audit Standards

3.11 CIPFA’s Code of Practice has been replaced by the Public Sector Internal Audit Standards and these Standards should be adopted by all local authorities. The work of the Council’s internal audit team continues to demonstrate compliance with these Standards.

Annexes	Annex A: Detail of Internal Audit Work during 2020-21 Annex B: Other Audit Work
Background Papers	None
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DETAIL OF INTERNAL AUDIT WORK FOR THE YEAR 2020-21

Details of the work programme completed by Internal Audit covering the financial year 2020-21 are set out below:

- Re Deployment to assist the national welfare effort
- Key finance audits
- Other audits
- Other audit work

RE DEPLOYMENT TO ASSIST THE NATIONAL WELFARE EFFORT AND THE IMPACT OF COVID-19

The Internal Audit team were temporarily reallocated with other Council staff at the start of 20/21 to assist with the Council's emergency response to the national Covid -19 pandemic and the associated major incident declared across the Surrey area. This had an impact on the delivery of the 20/21 audit plan.

- Both auditors worked in the welfare cell based in the Contact Centre, from April to the end of June. For the audit team this ranged from 2 days to 4 days per week in total.
- The Senior Auditor participated in calling the borough's shielding or vulnerable residents. Calls were made daily from April until July 2020, and in total several hundred calls were made. All calls were logged and residents requiring either food parcels or medicine were assisted.
- Calls to shielding residents were also made following the second wave of shielding starting November to December, averaging 10-20 calls per day.
- Both activities required some week end working during the busiest periods.

KEY FINANCE AUDITS

A number of finance audits are carried out annually which the Council's external auditors may wish to place reliance on when they are conducting the end of year audit of the authority's financial statements. In completing the work programme for the year both the external auditors and Internal Audit will be minded of both the adequacy of the Council's financial systems and the adequacy of the arrangements for preventing and detecting fraud and corruption. A number of recommendations were raised in respect of the finance audits and the majority of these have been actioned by managers.

Cash & Bank

A number of Council functions were closed for part of 20/21 due to Covid -19 such as the theatre, the cash office(post room) and the Council car parks. As a result the amount of cash and income transactions were reduced. That being said we did audit the post room processes and procedures when they were re-opened, cash receipts from building control, planning and council tax, the cash collection arrangements with the cash security firm, as well as banking and bank reconciliations. The audit also reviewed the corporate credit card operation and transactions in detail, and looked at staff who have been given either a Barclaycard or Natwest credit card to make Council purchases. In total 7 recommendations were made to improve controls over the use of cards, and all of these have since been implemented.

Debtors and Income

The annual debtors audit examined the process of raising sundry debts and to ensure that debts are raised accurately and on a timely basis, but also that the debt recovery process is effective ensuring debts are chased promptly. The 2020/21 audit focused on whether debts are raised accurately and on time, the adequacy of the debt recovery process and that debts are chased promptly, whether debts are written off correctly and only when it is valid to do so, whether debts are cancelled correctly upon receipt of valid Credit Notes, and the reconciliation processes between Accounts Receivable and the General Ledger and Adelante (cash receipting system). Three audit recommendations were made to tighten up on processes and controls and these have been actioned. These included recovery of sundry debts controls and write offs.

Creditors and Expenditure

As in the previous year the 20/21 audit focused on a number of key financial control processes including the payment run process, including checks on prepayment, post payment, and BACS file reports, and appropriate sign offs, exception reports run from Civica, e.g. payments over £20k and new suppliers and what action is being taken on these, creditor invoices paid through the Civica system were also examined. The audit also covered controls over changes to supplier bank accounts as well as access to the finance system, as weaknesses in control here could be indicators of bank mandate fraud. In total 2 recommendations were raised relating to reviewing and approving journals and these have been dealt with.

Revenues

The audit team reviewed arrangements for processing refunds for business rates and council tax accounts, whether revenues system data is checked/reconciled back to Valuation Office records/cash feeder systems. The review also covered how exemptions or discounts are applied and approved, and whether they are backed up by supporting records/paperwork. The audit came up with one recommendation relating to controls operating over refunds which has now been actioned. Business rates grants paid out due to Covid were examined under the Grants audit.

Housing Benefits

The audit team focused this year on the reconciliation processes undertaken and checked whether benefit overpayments are being identified, re calculated and recovered effectively. There were no recommendations.

Treasury Management

This audit aimed to provide assurance over Council money market investments and ensuring the authority is getting a reasonable level of return on its treasury investments, taking into account yield, security, and risk. As in previous years the 2020/21 audit focused on the treasury strategy, Council investment performance monitoring, access to Bankline and other financial records, separation of duties, Prudential borrowing to meet investments and new acquisitions, as well as Treasury information provided by the Council's treasury advisers. It is noted that the rate of return from Council investments has dropped greatly in the last few years due to the markets. In total 2 audit recommendations were raised and these have been actioned.

Capital

The annual audit for capital followed a similar process to previous years. Checks were carried out to ensure Council assets are valued correctly, and assets are accounted for correctly on the ledger, Council assets are adjusted to reflect changes in market conditions and Council assets are recorded/logged and are verified on a periodic basis. The 20/21 audit also reviewed the current insurance processes in place between the Council and its insurance partners. Four recommendations were made in total highlighting the need to maintain accurate and up to date service inventories as well as keeping insurance processes and the all risks spreadsheet up to date. These have been actioned.

Main Accounting

The annual main accounting audit aimed to provide assurance to management that the Council's financial system and associated feeder systems are working correctly, and are being adequately controlled, and to ensure the accuracy and timeliness of the preparation of the Council's financial statements and set of accounts. The audit examined access to Civica and making sure changes made to system data are with appropriate approval, journal entries are created accurately and postings are correct, accounting for year end/period 12 journals are dealt with efficiently. The review also tested the corporate budget monitoring process as well as accruals processed at year end. One recommendation was made and this has now been dealt with.

OTHER AUDITS

Joint Waste

The audit examined the joint waste contract held with Amey and managed by Joint Waste Solutions (JWS) on behalf of the 4 authorities, Surrey Heath, Woking, Mole Valley and Elmbridge. Discussions are being held for the audit to be undertaken by one of the other partners in 21/22.

A number of key elements were examined as part of the 20/21 audit: core and variable expenditure and settlement of invoices, garden waste scheme and associated income and expenditure, Covid 19 agency staff costs, budget monitoring, contract administration and the operation of the committee and Partnership Board, and reporting to Members. In total 10 audit recommendations were raised and an action plan has been arranged with JWS to implement these by the autumn of 2021. The report was also presented to the Joint Waste Partnership Board where it was well received. Recommendations for improvements related to improvements to the IAA, providing further checks to Covid 19 agency costs, checking backing up data for the garden waste scheme, and settling invoices.

Payroll

An annual review of the main payroll processes were undertaken. The audit examined some of the processes for the transfer across to the new HR and payroll system iTrent from April 2021. The audit also focused on the management of new starters and leavers, as well as amendments to pay. Overtime claims and staff paid by timesheet were also examined in detail, including overtime claims processed due to Covid and weekend working. In all 2 recommendations were made and these controls have now been incorporated into the new HR system and are working.

Grants

The focus of the audit examined whether external grants awarded to the Council are applied for correctly, suitably authorised, are spent and used within the constraints of the conditions of each grant, and adequate records are retained by services. The audit also considered the extent to which grants paid to local business and charities by the Council are applied for correctly, suitably authorised, are spent and used within the terms and conditions of each grant, and adequate records are kept by services. Five areas were selected for review: environmental health, finance, business, community safety and economic development. Five recommendations were made to tighten internal controls especially in relation to maintaining records of how each grant has been spent, as well as ensuring organisations monitor actions taken and an action plan has been agreed in Feb 2021 to implement these.

HR

The audit examined all new policies and procedures released by HR in 20/21 and provided comments as necessary. Internal Audit also carried out the latest biannual review of the Section 11 safeguarding audit and report back to the Surrey Safeguarding Children Partnership, on the instruction of the CMT. Following the completion of the Section 11 Audit, we worked with the HR team to develop an Action Plan to address areas for improvement. The audit also reviewed the arrangements in place for identifying and assessing contractors in respect of the intermediaries legislation (commonly known as IR35 or off-payroll working) and to review the mechanisms in place for monitoring and recording IR35 assessments, establish whether the latest rules under the intermediaries legislation applying to the public sector from April 2020, including the completion of status determination statements, and worker IR35 certificates are being followed. In total 10 recommendations were put forward to improve operations and internal processes (due Sept 21). These include ensuring IR35 records are being maintained and kept up to date in case of challenge, as well as ensuring that the actions relating to HR for the safeguarding work are fully implemented on time.

Parking

Parking activities were restricted in 20/21 due to the pandemic, and car parks didn't charge for several months. This was reflected in the amount of testing carried out for the audit. The audit focused on those activities under the responsibility of SHBC i.e. Off street activities including permits and car parks. It did not cover activities now managed by Woking on behalf of SCC i.e.. on street activities. No recommendations have been raised to date.

Property

The property audit covered the end of 19/20 and Quarter 1 of 20/21. The review covered the work of corporate property and investment and development. The audit focused on the due diligence work and safeguards in place when new assets are being purchased. The audit also examined the asset management plan, the work of what used to be called the Land & Property Board, the planned preventative maintenance programme as well as condition surveys undertaken. The report was issued July 2020, and 22 recommendations were raised relating to ensuring conditions surveys are undertaken, the acquisition policy be reviewed and brought up to date, and controls operating over the then L&P Board.

Camberley Theatre

A review of the Council's theatre service was started in 19/20, and finished off in 20/21 due to Covid-19. As the theatre was closed throughout much of 2021 due to Covid there was little income and controls to check in year. The audit covered the following key risks, financial monitoring , income received, petty cash and banking, cash handling and cashing

up, venue hire, booking process and hire income. Audit also examined professional show contracts, ticket sales and show settlements with performers and agents. Eight recommendations were agreed and an action plan set up with the Venue Manager. Most of these related to controls operating over venue hire and bookings and improvements have been made such as steps being taken to make sure T&Cs are followed with hires, and the correct rates charged.

ICT

In all the audit reviewed the controls and functions operating over the Box cloud content platform, the development and roll out of the Council's digital portfolio. The safeguards in place to manage computer equipment and assets such as laptops were also examined in some detail, especially with a view to more agile working and working from home. Nine recommendations were raised and all of these have been implemented.

Business Continuity & Emergency Planning

Internal Audit updated the business continuity service level plans for the entire service - for audit, fraud and enforcement, with the aims of identifying key equipment, loss or denial of access to Council offices, key staff and making sure we have contacted our key suppliers. IA was also involved with a review of the loss of staff document which focuses on addressing staff absences as a result of the pandemic, as well as staff re deployment to help with the covid 19 response. The audit is planned for completion by the summer of 2021.

OTHER AUDIT WORK

- Elections - IA participated in the Elections Project team and contributed to a number of activities in the run up to the Elections of May 2021. These included reviewing and updating the project plan and risk register, as well as the Covid risk register, and assisting and challenging election processes and procedures by the team.
- Census 2021 – As Assistant Census Liaison Manager audit was responsible for day to day liaison and work preparing for Census for the ONS. This included helping to develop an address index to ensure the fullest coverage, providing local information to identify and target local challenges, identifying and sharing local community contacts, providing practical support for the field operation, supporting local publicity and media relations activity, and providing local data to support quality assurance. Fortnightly meetings were held with our Census Engagement Manager where information was exchanged and updates received. As ACLM there were also a number of Census workshops attended to ensure the Council was helping to maximise turnout and ensuring engagement with the local community and hard to reach groups.
- National Fraud Initiative (NFI) – a national exercise and database set up by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Audit was appointed Key Contact for this activity, and tasks include co ordinating the exercise for the Council, working with the NFI to deliver data matches, and setting up and deleting users.
- Corporate risk management group – IA has participated in this group in 20/21, and has contributed to reviewing the corporate risks and the risk register, and providing risk updates that relate to the audit function.
- Equalities and diversity action group – again IA has participated in this group in 20/21, by reviewing and critiquing equality impact assessments such as the parking policy, and various HR policies
- Monitoring Financial Regulations – part of the audit role is to monitor and report on Financial regulations compliance, and reporting of breaches of non compliance where necessary
- Scheme of Delegation and authorised signatory processes – the powers of certain officers to sign for financial transactions is managed and monitored by IA. New users are set up by audit, and leavers are deleted. Audit also reviews current levels and makes amendments if required. Audit also monitors compliance throughout the year and reports breaches if necessary.