Report of:	Chief Internal Auditor & Risk Manager
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Report Track:	Audit & Gov C'ttee: 29/07/21

Audit & Governance Committee
29 July 2021
Internal Audit Annual Report 2020-21

1   Purpose of Report

1.1   To present the Internal Audit Annual Report for 2020-21

2   Recommendation(s)

2.1   That the Committee note the Internal Audit Annual Report for 2020-21

3   Key Issues and Reasons for Recommendations

Key Issues

3.1   Based on the work undertaken during the year and the implementation by management of the audit recommendations, Internal Audit can provide reasonable assurance that the Council's governance arrangements including systems of internal control were operating adequately.

Reasons for Recommendations

3.2   The Audit & Governance Committee is tasked with receiving the Annual Report and using it to inform their work including the review of the Annual Governance Statement.

4   Relationship to Corporate Priorities

4.1   The system of internal control is a key element of the Council's corporate governance arrangements which cuts across all corporate priorities.

5   Report Detail

5.1   Management are responsible for the control environment and should set in place policies and procedures to help ensure that the system is functioning correctly.

Internal Audit review, appraise and report on the effectiveness of the system of internal control.

5.2 The Internal Audit Annual Report (attached as Appendix 2) is the culmination of the work of the Section during the course of the year and seeks to:-

- provide an opinion on the adequacy of the control environment;
- comment on the nature and extent of significant risks; and
- report the incidence of significant control failings or weaknesses.

5.3 The report is a snapshot view of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring to the attention of the committee any relevant areas where significant weaknesses have not been addressed by managers.

5.4 The coronavirus pandemic has had an impact on the work of the team and caused some disruption to the completion of the Audit Plan. The Team have worked remotely to complete as many audits for 2020-21 as possible but some have had to be delayed.

5.5 Work completed in Quarter 4 has not previously been presented to committee; information for work completed in Quarter 4 is attached as Appendix 1.

5.6 The Internal Audit Annual Report is one of the sources of assurance that is used to support the Council's Annual Governance Statement

6	**Implications**

6.1 **Financial**

None

6.2 **Legal**

None

6.3 **Human Resources**

None

6.4 **Risk Management**

None

6.5 **Equality & Diversity**

None

6.6   **Climate Change**

None

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7   Appendices to the Report

Appendix 1 - Summary of Significant Findings Quarter 4 Audits

Appendix 2 - Internal Audit Annual Report for 2020-21

Previous Consideration

None

Background Papers

Files held by the Chief Internal Auditor

Summary of Significant Findings for Audits Issued in Quarter 4

Audit Reports Issued in Quarter 4

Audit	Head of Service	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
Cyber & Network Security	Technology★	6	Limited	• A number of older servers were found to still be in use due to legacy applications. • A large number of users had full access rights to the network. • Some laptops had not been updated with recent virus protection due to not connecting to the network for a significant period. • More work was needed to ensure the network access was properly controlled and restricted to authorised devices. • Better records were required for the set-up and purpose of the firewall rules. • Only 50% of employees had completed the Cyber Security training
National Non-Domestic Rates	Financial Management	1	Partial	• User accounts were found not always to be deleted promptly when staff no longer need access and one user had higher access rights than their role required.

Audit	Head of Service	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
Staff Expenses	HR★	5	Partial	• A significant number of mileage forms were poorly completed and did not contain sufficient information to allow mileage claims to be adequately verified. • A number of forms were found not to have supporting VAT receipts for fuel meaning VAT could not be reclaimed. • One form was not certified by a person who was authorised to approve mileage payments.
Housing Benefits	Financial Management	0	Substantial	
Payroll	HR★	0	Substantial	
Covid Response Review	Corporate		Substantial	

★Services led by Stafford Borough Council as part of Shared Services

Audit Follow-ups Completed in Quarters 4

Audit	Head of Service	Original Assurance	High/Medium Risk Recommendations				Revised Assurance	Comments & Key Outstanding Recommendations
			Implemented	In Progress	Not Implemented	Total		
Housing Social Alarms Arrangements	Housing & Partnerships	Partial	4	0	1	5	Partial	Work still needs to be done to determine the long-term options for the function and to re-tender the contract.
Rent Debit, Collection & Arrears 2nd Follow Up	Housing & Partnerships	Partial	0	0	1	1	Partial	Work still needs to be completed to automate the issue of standard arrears letters.
Information Governance 2nd Follow Up	Governance & Corporate Services	Partial	1	0	4	5	Partial	• A draft information Governance Framework has been produced but put on hold during the pandemic. • Training for Senior Information Risk Owners still needs to be provided. • The Publication Scheme needs to be updated • Work on a Protective Marking Scheme has not been progressed.

Cannock Chase District Council Internal Audit Annual Report 2020-21

July 2021

working together

INTERNAL AUDIT – ANNUAL REPORT 2020-21

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INTERNAL AUDIT – ANNUAL REPORT 2020-21

1. INTRODUCTION

1.1 The Internal Audit Service is a shared service with Stafford Borough Council. This report highlights the work carried out by Internal Audit to deliver the Annual Audit Opinion for Cannock Chase District Council.

The Annual Reporting Process

1.2 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its governance arrangements, comprising of risk management and internal control. Internal Audit objectively examines, evaluates and reports on the adequacy of the Council's governance arrangements as a contribution to the proper, economic, efficient and effective use of resources. Responsibility for governance rests fully with Managers, who should establish and maintain an adequate system of internal control to enable them to discharge their responsibilities and to ensure that the Council's resources are properly applied in the manner and on the activities intended.

1.3 This report is the culmination of the work of the Internal Audit Section during the course of the year and seeks to:

- provide an opinion on the adequacy of the control environment;
- comment on the nature and extent of significant risks; and
- report the incidence of significant control failings or weaknesses.

1.4 It provides a summary of the work of the Section throughout 2020-21. As such it presents a snapshot picture of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by Managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring any relevant areas where significant weaknesses have not been addressed by managers to the attention of the Audit & Governance Committee if and when it is deemed appropriate.

1.5 Internal Audit has adopted an exception based reporting methodology, as such only those areas where weaknesses have been identified are reported on.

Requirement for Internal Audit

1.6 The requirement for an Internal Audit function derives from local government legislation, including section 151 of the Local Government Act 1972 which requires authorities to "make arrangements for the proper administration of their financial affairs". Proper administration is interpreted in this legislation to include Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that a relevant body must "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance".

Review of Internal Audit

1.7 A review of the Internal Audit has been undertaken within the year as part of the Quality Assurance and Improvement Programme as required by the Public Sector Internal Audit Standards.

1.8 There were two key elements to the review this year:-

   i. the Chief Internal Auditor has conducted a self-assessment of the section in relation to compliance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN); and

   ii. reference to the External Quality Assessment (EQA) carried out by Cipfa in November 2016. The outcome of this review was presented to the Audit Committee in March 2017. The next EQA is due to be completed in 2021-22.

1.9 The review concluded that Internal Audit is effective and conforms sufficiently with the requirements of PSIAS/LGAN to ensure that the opinion given in this Annual Report can be relied upon for assurance purposes. Where actions have been identified these are attached in Appendix 3 at the end of this report.

1.10 One area of significant non-conformance with the standards was identified and this relates to PSIAS 1110 Organisational Independence. The standards require the "Chief Audit Executive" to report functionally to the Board and indicate that this includes the Audit Committee Chair and Chief Executive commenting on the Performance Development Review and the Audit Committee setting remuneration for the "Chief Audit Executive".

1.11 This is not a common practice in Local Government where Members do not routinely get involved in detailed employment matters. It is felt that sufficient other safeguards to the independence of Internal Audit are currently in place within the Council such as allowing the Chief Internal Auditor the unfettered right of access to the Audit Committee Chair and Chief Executive to raise any concerns. It is therefore felt that this area of non-conformance does not compromise the effectiveness of Internal Audit although PSIAS/LGAN requires it to be disclosed in the Annual Audit Report.

1.12 The External Auditors, Grant Thornton, have concluded that "the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council".

1.13 In order to ensure the quality of each audit, the Senior Auditor, the Principal Auditor or the Chief Internal Auditor carries out a file review for each audit prior to the reports being issued. The Chief Internal Auditor also reviews and signs-off every report before it is issued. These processes form part of the internal quality assurance process and helps to provide a consistent approach between the auditors.

2. REVIEW OF CONTROL ENVIRONMENT

How the Control Environment is Reviewed

2.1 Internal Audit operates to a risk based audit plan. The audit plan is risk assessed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk.

2.2 This risk based approach to audit planning results in a comprehensive range of audits being undertaken during the course of the year to support the overall opinion on the control environment.

Internal Audit Opinion for 2020-21 and the Annual Governance Statement (AGS)

2.3 Regulation 3 of the Accounts & Audit Regulations 2015 require that the Council:-

"must ensure that it has a sound system of internal control which—
(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
(b) ensures that the financial and operational management of the authority is effective; and
(c) includes effective arrangements for the management of risk.

2.4 In addition regulation 6 of the Accounts and Audit Regulations 2015 requires that the Council:-

"must, each financial year—
(a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
(b) prepare an annual governance statement;"

2.5 Internal Audit has a responsibility to provide assurance from the work they undertake during the year in respect of the control environment operating within the Council to feed into this review.

2.6 The opinion this year has placed more reliance on observations and awareness of the Council's processes whilst supporting front-line services and on the advice and guidance given relating to revision of processes to deal with the Covid pandemic rather than only relying on detailed audit work.

2.7 Based on the work undertaken during the year and the implementation by management of the audit recommendations, Internal Audit can provide **partial assurance** that the Council's governance arrangements including risk management and systems of internal control were operating adequately and there were no instances where any breakdown of control resulted in a material discrepancy.

The Councils response to Covid allowed most services to operate well throughout the year although and new working methods allowed processes to be modified to cope with a predominantly homeworking workforce. Some cessation of services had to occur where the risks were felt to be significant but these were based on solid risk assessments and due to compliance with Government guidelines.

2.8 Two systems have been given limited assurance:

(i) Critical Information Systems not supported by IT

(ii) Cyber and Network Security.

2.9 Due to the Council's reliance on IT and the increasing threat of attack the Cyber and Network Security Audit has been deemed to be a significant governance concern and will be flagged up for consideration in the Annual Governance Statement.

2.10 The Critical Information Systems findings have not been classified as significant in terms of the Council's overall governance arrangements. However it is essential that the deficiencies identified are addressed in order to prevent future material discrepancies.

2.11 From March 2020 we saw a large scale move to homeworking due to the Coronavirus pandemic this persisted throughout the 2020-21 year and to date a significant number of employees are still predominantly working from home. This has led to a rapid revision of some key processes especially where we were reliant on physical signatures as part of the process e.g. Creditor Payments, HR processes as well as the rapid introduction of new processes such as the Community Hub and Business Grants. Internal Audit was involved on advising on some of these processes and some have been reviewed as part of the 2020-21 internal audit work or reliance placed on the knowledge of the systems through consultancy work.

2.12 No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks. These risks are reflected in the audit plan and are the subject of separate reports during the course of the year.

3.   SIGNIFICANT ISSUES ARISING 2020-21

3.1 Each system/area audited is given a level of assurance based on the presence and effectiveness of the controls in place. Four levels of assurance are currently used and the definitions for each are contained in appendices 1a to 1d.

3.2 A summary of the level of assurance given to each audit is given in the table below.

	Assurance				
	Substantial	**Partial**	**Limited**	**No Assurance**	**No Opinion**
Number of Audits	5	6	2	0	2
For further information	See Appendix 1d	See Appendix 1c	See Appendix 1b	See Appendix 1a	See paragraph 3.3

3.3 Three areas were reviewed but the nature and depth of the work meant that it was not appropriate to issue a formal opinion on the level of assurance although where necessary recommendations have been made. The areas were:

(i) Pensions Assurance for Staffordshire County Council; and
(ii) Environment & Healthy Lifestyles Major Projects

3.4 The Internal Audit Section did not identify any significant weaknesses in relation to any of the Council's key financial systems and core governance processes which were examined in 2020-21.

3.5 In addition to the main audit work the section also followed-up the progress made in relation to Audit Recommendations where the audit was not issued with a Substantial opinion. Follow-ups are generally undertaken around 6 months after the report has been finalised.

3.6 Follow-ups were completed for 6 areas At the end of the year -

- 1 area had improved from Partial to Substantial.
- 5 areas remained Partial Assurance.

3.7 In total 25 recommendations were followed-up of which:

- 10 recommendations (40%) had been implemented;
- 9 recommendations (36%) were in progress at the time of the follow-up; and
- 6 recommendations (24%) had not been implemented at least partially at the time of follow-up.

3.8 More details on the follow-ups can be found in Appendix 2.

4 AUDIT PERFORMANCE

4.1 The table below indicates the Section's performance against the audit plan for 2020-21. Performance for 2020-21 Audit year was adversely affected by the COVID-19 pandemic which saw major disruption to the operation of the Council – a revised plan was approved by Committee 8th February 2021 however ongoing restrictions and a second lockdown had further impact on the teams ability to complete the intended work.

	2020-21				2019-20
	Planned	**Actual**	**Actual %**	**Target %**	**Actual**
Revised Plan	17	**15**	**88%**	90%	92%

4.2 Fifteen audits were completed in the year out of the seventeen planned for in the revised 2020-21 Audit Plan.

4.3 Five audits had commenced but not been completed by the end of the year. These are:

- Housing Void Management
- Housing Allocations
- Local Enterprise Partnership Arrangements / Combined Authority
- IT Asset Management
- Cloud Strategy and Security

4.4 One audit planned for the year had not commenced at the end of the year, IT Asset Management. This will be rolled-over to 2021-22.

4.5 Included in the completed audits figure above are four audits which were originally part of the 2019-20 audit plan but were not completed in that year. The audits completed this year from the 2019-20 Audit Plan were:

- Land Charges
- IT Capacity Management & Resilience
- Critical Information Systems not supported by IT
- Debtors

4.6 In addition to the audit plan the Section has also carried out a number of other pieces of ad hoc work and consultancy exercises during the year, these included advice on system changes and new system being implemented as part of the Covid response and recovery arrangements.

4.7 Members of the Internal Audit Team were deployed to support front line services and Covid response work for part of the year which impacted on performance. This included supporting the Post Room, Community Hub Calls and validation work for Covid Grants.

5 FRAUD & IRREGULARITY WORK

Pro-active Fraud work

5.1 The Internal Audit section has taken a proactive approach to the prevention / detection of fraud and corruption. During the year it has:-

- Continued membership of the Midlands Fraud Sub Group;
- Carried out Verification work of Covid Grants and followed up on a number of alleged fraudulent applications.
- Been alert to fraud risks in the audits carried out in the year

Fraud/Irregularity Investigations

5.2   The team has not been involved in any special investigations relating to fraud or irregularities in the year relating to Cannock Chase District Council.

5.3   Two allegations were received through the Council's Confidential Reporting and Anti-fraud and Bribery frameworks in the year. Neither allegation was substantiated so detailed investigations were not carried out.

National Fraud Initiative Datamatching

5.4   The Council is a statutory participant in the Cabinet Office's National Fraud Initiative (NFI) exercise which is carried out every 2 years. The 2020-21 matches which were released in January 2021 and are being reviewed by relevant departments. No significant issues have been identified from the work carried out to date.

Audits Planned and Completed in 2020-21 by Assurance Level

No Assurance

Definition	One or more High (Red) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks.
	Immediate action is required by management to address the weaknesses identified in accordance with the agreed action plan

There were no audits which were classified as No Assurance in the year.

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Appendix 1b

Limited Assurance Audits

Definition	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 9 or higher.
	Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.

Audit Area	Service Lead Officer	No of Recommendations
Critical Information Systems not supported by IT	Technology ★	3
Cyber and Network Security	Technology ★	6

★ Services led by Stafford Borough Council as part of Shared Services

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Appendix 1c

Partial Assurance Audits

Definition	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 6 or below. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.

Audit Area	Service Lead Officer	No of High/Medium Recommendations
National Non-Domestic Rates	Financial Management	1
Creditors	Financial Management	1
Debtors	Financial Management	5
Land Charges	Governance & Corporate Services	3
Staff Expenses	HR★	5
IT Capacity Management & Resilience	Technology★	7

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Appendix 1d

Substantial Assurance Audits

Definition	All High (Red) and Medium (Amber) risks have appropriate controls in place and these controls are operating effectively.
✓	No action is required by management.

Audit Area	Service Lead Officer
Housing Benefits	Financial Management
Council Tax	Financial Management
Council Tax Reduction Scheme	Financial Management
Payroll	HR★
Covid Response Review	Corporate

★Services led by Stafford Borough Council as part of Shared Services

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Appendix 2

Results of Follow-ups Undertaken in the Year By Assurance Level

Audit	Head of Service	Original Assurance	High/Medium Risk Recommendations				Revised Assurance
			Implemented	In Progress	Not Implemented	Total	
Housing Safety & Compliance	Environment & Healthy Lifestyles	Partial ▲	0	3	0	3	Partial ▲
Lease Holder Recharges	Housing & Partnerships	Partial ▲	0	6	0	6	Partial ▲
Housing Social Alarms Arrangements	Housing & Partnerships	Partial ▲	4	0	1	5	Partial ▲
Rent Debit, Collection & Arrears 2nd Follow Up	Housing & Partnerships	Partial ▲	0	0	1	1	Partial ▲
Information Governance 2nd Follow Up	Governance	Partial ▲	1	0	4	5	Partial ▲
Grounds Maintenance	Environment & Healthy Lifestyles	Partial ▲	5	0	0	5	Substantial ✔

IMPROVEMENT PLAN FOR INTERNAL AUDIT – 2020-21

Source	Actions	Person Responsible for Implementation	Timescale
Annual Review	Internal Audit will review working paper design and use of technology to move closer to having a totally electronic audit file. Some progress has been made but the Section is considering purchasing an Internal Audit Working Paper System which could improve efficiency in the team.	Chief Internal Auditor & Risk Manager	Jan 2022
Annual Review	Internal Audit will look at progressing some mapping of Assurance provided by others and how this can be taken into account	Chief Internal Auditor & Risk Manager	Ongoing
Annual Review	Internal Audit will continue to explore ways of utilise Computer Assisted Audit Techniques into their work	Chief Internal Auditor & Risk Manager	Ongoing