

REPORT OF THE
CHIEF FINANCE OFFICER & HEAD OF INTERNAL AUDIT

TO THE AUDIT & ACCOUNTS COMMITTEE

ON WEDNESDAY 20th January 2020

TITLE: Internal Audit Progress Report (October 2020 to January 2021)

RECOMMENDATIONS: Members are requested to consider the contents of the report.

EXECUTIVE SUMMARY: The purpose of this report is to inform Members of the resources utilised by Internal Audit during 2020/21, the activities undertaken in the reporting period, and the status of work currently being undertaken.

BACKGROUND DOCUMENTS:

- Audit & Accounts Committee reports
 - Internal Audit's management information systems
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KEY DECISION: No

DETAILS: N/A

KEY COUNCIL POLICIES: N/A

EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS: N/A

ASSESSMENT OF RISK: Internal audit projects are managed within the Unit's risk based audit protocols aimed at giving assurance regarding the management of the City Council's key business risks.

LEGAL IMPLICATIONS Supplied by: Nicky Smith, Senior Solicitor

Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and to secure that one of their officers has responsibility for the administration of those affairs. The Accounts and Audit Regulations 2015 also require authorities to ensure that they have 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.

A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management control and governance processes, taking into account public sector internal auditing standards or guidance.

In that regard, the Public Sector Internal Audit Standards (CIPFA/IIA) requires an authority's chief audit executive to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The quality assurance and improvement programme must include both internal and external assessments. Internal assessments include the ongoing monitoring of the performance of the internal audit activity.

The purpose of this report is to inform Members of the resources utilised by Internal Audit between October 2020 and January 2021, the activities undertaken in the reporting period, and the status of work currently being undertaken. The report also explains that CIPFA has approved guidance on the head of internal audit annual opinion for 2020/21. As a result of the Covid-19 pandemic, heads of internal audit are likely to have made significant changes to their internal audit plans which may mean that they have concerns about the consequences for their annual opinion. As confirmed in this report, the guidance addresses this risk and sets out steps to be taken, including working with the leadership team and audit committee.

FINANCIAL IMPLICATIONS Supplied by: Jean Gleave Head of Internal Audit

The audit plan is funded from within the revenue budget and there are no additional financial demands resulting from this report.

PROCUREMENT IMPLICATIONS Supplied by: Christine Flisk, Procurement Manager.

There are no known procurement implications with this report.

HR IMPLICATIONS Supplied by: Catherine Sharples HR Manager

There are no known HR implications arising from this report.

CLIMATE CHANGE IMPLICATIONS Supplied by: None

OTHER DIRECTORATES CONSULTED: N/A

CONTACT OFFICER: David Smith, Internal Audit Manager **TEL NO:** Ex 6969

WARDS TO WHICH REPORT RELATES: N/A

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INTRODUCTION

This report provides Members of the Audit & Accounts Committee with details of the resources utilised by Internal Audit and outcomes, including work reported in this period, work currently being undertaken and new work commenced.

Appendix 1 provides details of the progress and status of the 2020/21 plan.

Audits Completed and Reports Issued

Table 1 below summarises the three audits that have been finalised since the last progress report to Audit and Accounts Committee, and the corresponding number of agreed actions and overall level of assurance provided for each of those audits.

Summary Reports have been provided to Committee Members for each of these reviews.

Table 1: Reports Issued

Audit	Number of agreed actions and priority					Level of Assurance
	Critical	High	Medium	Low	Total	
Pupil Modelling	-	-	1	-	1	Satisfactory
Project Imagine (Project Governance)	-	-	1	-	1	Satisfactory
Service Desk (ICT)	-	-	3	-	3	Satisfactory
Total:	-	-	5	-	<u>5</u>	

Any level of assurance given to each audit is a balanced judgement based upon the established system of controls, the subject's approach to risk management, and the nature of any recommendations made and actions agreed. (See Appendix 2 for explanations of the different levels of assurance).

Actions are classified over the categories of critical, high, medium, and low. See Appendix 3 for explanations of the different levels of priority.

The agreed actions are designed to improve the control environment and/or improve 'value for money' within the client's area of responsibility and we can report that the action made in this period has been agreed by management.

Our audit reports include an action plan that records the detail of our findings, the agreed action that management intend to take in response to these findings and the timescale to undertake such action. This provides a record that progress can be measured against when we undertake our Post Implementation Reviews or follow-up work.

OTHER WORK

This section details other work completed by the audit team during the period.

Resources:

Covid-19 Response

Since the middle of March 2020, and the onset of the Covid-19 pandemic, the internal audit and counter fraud teams have been supporting the council's response to the pandemic.

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- working with the Revenues and Benefits team on the Government's small business, retail & hospitality, and discretionary grants; providing independent assurance and working to reduce the risk of fraud. This work has recently grown again following the introduction of the Tier system and the national lockdowns, in response to which the Government has introduced several new grant schemes requiring similar assurance work to that which we undertook over the spring/summer.
- working with the Housing Benefits team to implement a robust system for processing the Government's track and trace / isolation payments to eligible members of the public.

In addition, over the Spring/Summer the internal audit and counter fraud teams were supporting the council's response to the pandemic by:

- making safe and well calls to residents who are shielding.
- providing support to the accounts payable team.

Staffing

Sickness levels remain relatively low within the team, however, we anticipate being without one of our senior auditors for the remainder of the year due to maternity leave, with the impact of losing up to 60 days of audit work this financial year.

Work Underway

Work on the audit plan has now re-commenced as noted in Appendix 1. Draft reports have been issued in the following areas:

- Wharton Primary School
- Blue Badges

Reports are also being drafted for:

- Personal Budgets & Direct Payments
- Homelessness
- Corporate Complaints
- Welfare Rights and Debt Advice Service (WRADAS)
- Health Inequalities

Information Governance and Data / Digital

We continue to provide advice and consultative support to the council's arrangements for information governance and its response to the Information Commissioner's Office (ICO) inspection in March 2018. In addition we provide ongoing assurance and consultative support to the council's continued compliance with the requirements of:

- ISO 27001
- Payment Card Industry

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Supporting Squads, Transformation and Change

Internal Audit is currently involved in a 'squad' supporting:

- Pensions: Contribution payments to providers, providing consultancy advice or independent assurance as/when our input is appropriate.
- Project Imagine (Replacement system for CareFirst), providing consultancy advice or independent assurance as/when our input is appropriate.

Investigations

The team continue to be available to support the business with internal investigations, providing technical skills and advice when called upon and managing the whistleblowing hotline / online referrals. We have received one recent referral that we are currently evaluating.

Collaboration

- We have ongoing representation on sub groups of the North West Heads of Internal Audit Groups, the groups have been established to share good practice in audit across the region:
 - Contract Audit Group
 - IT Audit Group
 - Schools Audit Group
- In keeping with previous years, we have supported the annual audit of payroll by the external auditor, Mazars, by undertaking some specific audit tests on the payroll system (Noted in Table 1).

AUDIT WORK RECENTLY STARTED OR DUE TO START

Work is underway as noted in Appendix 1 and terms of reference have been finalised for the following audit work:

- RHS Garden Bridgewater Programme (Governance)
- Early Help / Helping Families

School Audits

We have discussed the schools audit plan with the Assistant Director. There is continued pressure on Salford's schools owing to the ongoing pandemic which limits their capacity to participate in an audit. We have been auditing schools only where there is felt to be a pressing need, in full consultation with the Assistant Director.

COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)

Head of Internal Audit Annual Opinion: Addressing the Risk of a Limitation of Scope

The Public Sector Internal Audit Standards (PSIAS) note the role of the Head of Internal Audit, in accordance with the PSIAS, is to provide an opinion, based upon, and limited to, the work performed on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes (i.e. the organisation's system of internal control). The opinion is one component that the council takes into account in compiling its Annual Governance Statement.

During 2020/21 the impact of COVID-19 on all the public services has been considerable and for internal auditors it has raised the question of whether they will be able to undertake sufficient internal audit work to gain assurance to provide the overall opinion. CIPFA has issued guidance on this subject for Heads of Internal Audit to consider. CIPFA recognises that local government bodies are struggling with considerable challenges and are having to make difficult decisions on how best to use their available staff and financial resources to meet critical needs. However, the professional and regulatory expectations on local government bodies, to ensure that their internal audit arrangements conform with the PSIAS, have not changed.

Heads of Internal Audit will need to consider whether they can still issue the annual opinion or whether there will need to be a limitation of scope. A limitation of scope arises where the Head of Internal Audit is unable to draw on sufficient assurance to issue a complete annual opinion in accordance with the professional standards. This is an issue not only for the Head of Internal Audit but also for the leadership team and the Audit Committee who normally rely on that opinion. It may also have wider consequences for stakeholder assessments of the organisation. While the limitation of scope will only be formally published in 2021 as part of the Head of Internal Audit's (HIA) annual report, the guidance addresses the importance of early identification of this risk.

Key Requirements for Local Government Bodies:

CIPFA have noted the following key requirements that heads of internal audit (HIA), leadership teams and audit committees should follow:

1. The HIA should plan to obtain sufficient assurance to support the annual opinion, taking into account both internal audit work and other sources of assurance. The reliance the HIA is placing on other sources of assurance should be disclosed in the overall opinion.
2. The HIA, leadership team and audit committee should review and discuss internal audit capacity where there are concerns and develop an action plan to mitigate the risk.
3. The HIA should make best use of their audit resources to maximise assurance.
4. Where the HIA considers that a limitation of scope is likely, the leadership team and audit committee should be advised promptly. The HIA should set out the likely consequences assessed and advise on remedial action to avoid a limitation of scope.
5. The HIA annual report should contain a clear explanation of any limitation of scope along with its causes and plans to address the situation going forward.
6. Where the HIA annual report and opinion contains a limitation of scope the authority should state this in the annual governance statement.

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Effective Use of Internal Audit Resources

The internal audit plan for 2020/21 attached to the strategy document reported to the October Audit & Accounts Committee meeting included 12 months audit work; this is more than can be achieved realistically within the remaining months of current financial year. We have engaged with the senior leadership teams to confirm that the work on the plan remains relevant and of value and to establish priorities regarding the timing of audit fieldwork. This has taken into account available resources and changing capacity within services as they respond to fast paced changes in service delivery. Only a small number of changes have been made to date to the plan of work drafted in March. We will continue to progress through the planned work, looking to make best use of available internal audit resources over the remainder of the year. The audits outstanding at the end of 2020/21 will transfer into the 2021/22 audit plan, subject to further consultation with the leadership teams in Quarter 4.

Internal Audit will assess the impact and likely consequences for the annual opinion and update the leadership team and Members on an on-going basis throughout the remainder of 2020/21 by means of Progress Reports and Audit Committee Summaries.

Appendix 1: Audit Plan 2020/21

Audit / Activity	Timing	TOR	Reported	Assurance	Comments
CORPORATE GOVERNANCE & RISK					
Governance Arrangements / AGS	ongoing	n/a	n/a	n/a	
Risk Management and Assurance Framework	ongoing	n/a	n/a	n/a	
Information Governance	ongoing	n/a	n/a	n/a	
Transformation, Change & Squads Support	ongoing	n/a	n/a	n/a	
SERVICE REFORM (general)					
Agency Workers (bf)	TBC				
Contract Management	Ongoing	n/a	n/a	n/a	
Corporate Complaints (bf)	Q3				Fieldwork complete / drafting report
Housing Benefits Service Redesign (bf)	Q3/4				Initial planning
Blue Badges	Q3	28/09/20	TBC	TBC	Draft report issued 22 nd Dec
Member Allowances and Payments (bf)	TBC				
Modern Slavery (bf)	TBC				
Statutory Returns - Data Integrity & Resources (bf)	Q4				
SERVICE REFORM (grants & compliance work)					
Greaves Trust	Q3/4				Annual review
Blue Badges (new criteria implementation)	Q1	n/a	03/06/20	Certified	Final report issued
Transport – Bus Subsidy	Q2	n/a	29/09/20	Certified	Final report issued
Also potentially including: Local Growth Fund; Cycle City; Highways – Potholes & Flood Resilience; and Empty Homes Grant.	TBC				
SERVICE REFORM (core financial systems)					
Accounts Payable / Creditors (bf)	Q3/4				

Audit / Activity	Timing	TOR	Reported	Assurance	Comments
Budgetary Control	TBC				
Main Accounting System (bf)	Q3/4				
Payroll Calculations	Q1	n/a	24/07/20	n/a	Memo report
Payroll Payments (bf)	Q3	17/08/20	TBC	TBC	Fieldwork underway
Treasury Management	TBC				
Service Reform (information technology and digital)					
Data Centre (Physical and Environmental Security)					On hold
Asset Management					Fieldwork underway
PCI Compliance		n/a	n/a	n/a	Ongoing / quarterly reports
Project Imagine (CareFirst system replacement)					Ongoing / Ad hoc consultancy
ISO 27001		n/a	n/a	n/a	Ongoing / Ad hoc consultancy
IT Strategy and policies (bf)					Initial planning
Service Desk Management (New Application) (bf)	Q1/2	10/01/20	05/12/20	Satisfactory	
PLACE					
Catering (Cash Handling)	TBC				
CCTV Control Room (ISO Compliance)	Q1	n/a	21/07/20	n/a	Final report issued
Commercial Estate Management	TBC				
Construction Services (Inventory)	TBC				
Health & Safety	TBC				
Income Processes (Former UV services)	Q2/4				
Major Projects – RHS Bridgewater Programme Governance	Q3	17/12/20	TBC	TBC	Fieldwork
Major Projects – University & Crescent Programme Governance	Q3				Initial discussion but likely to move to 21/22
Taxis	TBC				

Audit / Activity	Timing	TOR	Reported	Assurance	Comments
PEOPLE					
Project Imagine (programme governance)	Q1/2	24/02/20	22/10/20	Satisfactory	
Personal Budgets & Direct Payments (Children & Families) (bf)	Q2/3	20/08/19	TBC	TBC	Finalising fieldwork / Drafting report
Homelessness (bf)	Q2/3	18/01/19	TBC	TBC	Finalising fieldwork / Drafting report
Client Charging Policy (bf)	TBC				
Pupil Modelling and Planning (bf)	Q2/3	09/01/20	07/12/20	Satisfactory	
Use of Section 17 Funds (bf)	Q2/3				Fieldwork
Early Help and Helping Families (GM Troubled Families)	Q3				Planning / fieldwork commencing
SEN / High Needs Provision	Q2/Q3				Risk workshop held. Finalising TOR
Home Care	TBC				
Independent Fostering Agency (IFA)	TBC				
Integrated Commissioning (Children & Families) – Governance (bf)	TBC				
Out of Borough Placements (Approval Processes)	TBC				
Personal Budgets & Direct Payments (Adults)	TBC				
Population Health / Inequalities	Q3	17/09/20	TBC	TBC	Drafting report
Welfare Rights & Benefits Advisors	Q2/3	12/08/20	TBC	TBC	Drafting report
PEOPLE (Establishments)					
Children’s Homes (ongoing schedule of visits)	TBC				On hold due to Covid-19
Schools Financial Value Standard	Q3/4	n/a	n/a	n/a	
School governance support and test plan development	Ongoing	n/a	n/a	n/a	
All Hallows RC High School	TBC				

Audit / Activity	Timing	TOR	Reported	Assurance	Comments
Clifton Pupil Referral Unit	TBC				
Wharton Primary School	Q3	n/a	TBC	TBC	C/F from 19/20. Draft report issued 15 th Dec
Springwood Primary School	TBC				
Mesne Lea Primary School	TBC				
St Mary's RC Swinton Primary School	TBC				
River View Primary School	TBC				
Godfrey Ermen Memorial CE Primary School	TBC				
St Paul's CE Nevile Road Primary School	TBC				
Westwood Park Primary School	TBC				
Light Oaks Junior Primary School	TBC				
St Charles RC Primary School	TBC				
Mossfield Primary School	TBC				
St Edmund's RC Primary School	TBC				
St Mark's CE Worsley Primary School	TBC				
Clifton Primary School	TBC				
St John's CE Primary School	TBC				
Brentnall Primary School	TBC				
Irlam Endowed Primary School	TBC				

** Indicative level of assurance, based on the progress made since the original audit review*

Appendix 2: Levels of Assurance

Level of Assurance	DESIGN of the internal control framework		EFFECTIVENESS of the control framework	
	Audit findings	Opinion	Audit findings	Opinion
High	Appropriate procedures and controls are in place to mitigate the key risks.	There is a sound system of internal control designed to achieve objectives.	No or only minor exception found in testing of procedures and controls.	The controls that are in place are being consistently applied.
Satisfactory	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed, albeit with some that are not fully effective.	There is generally a sound system of internal control designed to achieve objectives, but with few exceptions.	A small number of exceptions found in the testing of procedures and controls.	There is evidence of non-compliance with some controls, which may put achievement of some of operational objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas.	The system of internal controls is weakened by some significant gaps.	A number of reoccurring exceptions found in testing of the procedures and controls.	There is poor compliance with controls and procedures which may put operational objectives at risk of not being fully achieved.
Minimal	For all risk areas there are significant gaps in the procedure and control. This will affect the effectiveness of organisation’s overall control framework.	Overall, there is a poor system of internal control in place.	Due to the absence of effective controls and procedures, no reliance can be placed on their effectiveness.	There is a substantial non-compliance with controls and procedures or compliance with inadequate controls and procedures, which will likely put the council’s objectives at significant risk of not being achieved.

Appendix 3: Priority of Actions

Priority	Rationale
Critical	Critical issue that could have a significant impact on a key system, function, or process objectives, and also the council's objectives.
High	Control weakness that could have a serious impact on a key system, function, or process objectives.
Medium	Control weakness that could have an impact on the achievement of a key system, function or process objectives or an issue, which, if addressed, would contribute towards raising the standard of internal control.
Low	Minor control weakness that does not have an impact upon the achievement of a key system, function or process objectives. Implementation of the recommendation would strengthen the control framework and/or improve compliance with existing controls.