



*BARROW BOROUGH COUNCIL*

**INTERNAL AUDIT ANNUAL REPORT**

**2020/21**

**July 2021**

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# EXECUTIVE SUMMARY

## Background

The purpose of this report is to meet the Head of Internal Audit's annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS). The Head of Internal Audit's formal annual report should present an opinion on the overall adequacy and effectiveness of the internal control environment, and:

- a) Include an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control; however, it should be noted that as a result of the Coronavirus pandemic the delivery of the Council's Internal Audit plan has been severely restricted. This report has been compiled in the required format.
- b) Disclose any qualifications to that opinion, together with the reasons for the qualification, including impairment or restriction in scope;
- c) Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
- d) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
- e) Compare the work actually undertaken with the work that was planned; and
- f) Comment on compliance with these standards and the Internal Audit quality assurance programme.

The PSIAS require that the Chief Audit Executive (Head of Internal Audit) should deliver an annual report which can be used by the organisation to inform its annual governance statement. Therefore, in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Council in meeting the requirements of the Accounts and Audit Regulations 2015.

## Scope of Responsibility

The Council is responsible for ensuring its business is conducted in accordance with law and proper standards. In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

## Quality Assurance

Internal Audit operates in accordance with its Audit Charter which includes a defined quality assurance process, involving all documentation being subject to peer review by a different Auditor within the team and subsequent sign-off by the Head of Internal

Audit. This process has been consistently maintained throughout 2020/21 and applied to each individual audit assignment. Additionally, Internal Audit has met all performance measures relevant to the service during the year.

## **Review of Effectiveness of Internal Control**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the senior managers within the Authority who have responsibility for the development and maintenance of the internal control environment; and also by comments made by the external auditors and other review agencies and inspectorates in the annual audit letter and other reports.

## **Basis of Assurance**

We have conducted our audits in accordance with professional standards and good practice contained within the PSIAS and additionally from our own internal quality assurance systems. We have not identified any limitations in the scope of our audit work in “qualifications to the opinion” within the detail of this report.

In addition, Internal Audit have undertaken a self assessment against the requirements of the PSIAS, and can confirm substantial compliance.

## **Head of Internal Audit Annual Opinion Statement**

This opinion statement is provided in support of the Council’s Annual Governance Statement as required under the Accounts and Audit Regulations 2015. The opinion is derived from work carried out by Internal Audit during the year as part of the agreed Internal Audit Plan. The Plan for 2019/20 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the internal control environment.

The PSIAS state that the internal control environment comprises three key areas: internal control, governance and risk management processes. My opinion on the effectiveness of the internal control environment is based on an assessment of each of these key areas.

As referred to above, there is a requirement for the “system of Internal Control” to include an assessment of sources of assurance, beyond just that of Internal Audit itself. As the Council is required to produce an Annual Governance Statement, sources of assurance are reflected and reviewed within this process, which Internal Audit are a part of; therefore the control environment is reviewed more fully in this way.

## **2020/21 Year Opinion**

This report cannot provide reasonable assurance that the organisation’s framework of governance, risk management and control predominantly operated satisfactorily during 2020/21 due to the restrictions and limitations of the coronavirus pandemic. Conversely, I do not have evidence to confirm significant deviation from the control arrangements occurred.

My detailed opinion is that, for the minimal systems reviewed, the Council has reasonable systems of control in place, although there are significant weaknesses which put some of the system objectives at risk.

There are, however, areas where only Restricted Assurance can be provided, which relate to the following final reports:

- Covid Risk Assessment – Post Assurance Review (Draft);
- IT Procedures Review.

Weaknesses found as a result of our work, together with our recommendations for improvement, have been included in our reports to senior management and Members. Additionally, any weaknesses identified through the Annual Governance Statement process are recorded separately and reflect the assurance provided from all sources both internal and external.

## **Co-operation**

The successful achievement of the audit plan is dependent on the contribution of the Internal Audit resource and the Council's staff as audit clients. I would like to record my appreciation for the involvement and commitment of staff, and for their critical appraisal of our recommendations during the year. I would also like to acknowledge the support shown by the Audit Committee in the delivery of our Plan.

Keith Jackson  
Head of Internal Audit

# **1. SERVICE BACKGROUND**

## **1.1 Our reporting lines**

In 2020/21 the Council's Internal Audit service has been delivered by an internal department within the Council's structure, under the direction of the Director of Resources with access to the Executive Director and elected Members if, in exceptional circumstances, we considered this necessary.

The Head of Internal Audit meets with the Director of Resources, on a regular basis to discuss progress; in addition to attendance at External Audit liaison meetings as required. They also attend Audit Committee on a regular basis, which includes presentation of progress reports and an analysis of significant agreed recommendations.

## **1.2 Professional standards**

The Service aim is to exceed professional standards, thus providing the internal audit service in accordance with the Council's Internal Audit Charter, which incorporates the statements, standards and guidelines published by CIPFA and the Chartered Institute of Internal Auditors (in particular the PSIAS).

## **1.3 Our audit process**

We have adopted a risk-based approach to identify, and evaluate the application of, financial and other management controls.

Our process includes a computerised matrix evaluation approach. This approach is a practical process for documenting efficiently, and in an easily assimilated form, a rigorous analysis of the potential causes of risk and an assessment of the strength of controls against these risks. In addition, it can be used to demonstrate clearly the effect of implementing recommendations to address weaknesses. It allows for ready identification of control weaknesses, and of key controls, which are critical for the achievement of the systems objectives, as well as unnecessary or excessive controls. Our methodology specifically includes a rigorous quality assurance programme to ensure compliance with this process.

## **1.4 2020/21 Audit Plan**

The Audit Plan for 2020/21 was derived from a needs assessment of all agreed auditable areas within the Council. Each area is prioritised by significance band of which there are 5, with band 1 being the highest. This has resulted in an annual plan which concentrates on reviewing all significance band 1 and 2 audits (annual audits) with the remaining time allocated to Housing Benefit Subsidy testing and on a risk assessed and cyclical basis.

However, as a result of the coronavirus pandemic, the audit resource was re-allocated to the role of the administration and award of various Covid Support Business grants for the first half of 2020/21. The resource for the remainder of

the year has been predominantly assigned to Housing Benefit Subsidy testing, with minimal time available for additional reviews.

During the year, where reviews did occur, the specific scope and objective of each audit assignment was discussed with the relevant Service Manager prior to the commencement of each audit.

We will continue to monitor closely any new issues which may arise and will work closely with the Director of Resources in rescheduling priorities where required.

## 2. REVIEW OF PERIOD

### 2.1 Progress against 2020/21 Annual Plan

A detailed analysis of the current situation regarding the 2020/21 Plan is provided in Appendix A.

The assessment of auditable areas has identified 88 systems, which cover the Council's operations. The audit coverage achieved in the period, compared to the audit plan, is set out in the table below. The difference in planned coverage compared to actual mainly relates to the transfer of resource to Covid Grant administration, together with significant Housing Benefit Grant Certification testing which is not reflected in these figures, all of which were included within regular progress reports issued to the Audit Committee.

	Percentage of systems covered		Percentage of risk covered	
	2020/21	2019/20	2020/21	2019/20
<b>Planned</b>	39%	40%	81%	82%
<b>Achieved</b>	6%	32%	9%	66%

### 2.2 Liaison with External Audit

I have liaised with the External Auditor; providing documentation to assist in the delivery of their work where requested.

Our aim is to maximise the benefit from the Internal Audit service by avoiding duplication of coverage and facilitating where appropriate the External Auditor's approach, in order to provide maximum assurance; although this may not be possible in all instances.

### 2.3 Fraud Hotline

As part of the Council's responsibility to take action against potential fraud and corruption, a "Whistle-blowing" facility (or Fraud Hotline/webform) has been established since May 1998; for use by Council staff, contractors, suppliers and members of the public. The facility is operated by Internal Audit and call/report details are either investigated by Internal Audit, the Council's Revenues and Benefits team, or forwarded to the DWP for Housing Benefit fraud. A minor number are referred in specific instances to Public Protection Services, Housing etc.



<b>Calls received:</b>	<b>Revenues/ Benefit related</b>	<b>Staff Related</b>	<b>Other</b>	<b>Total</b>
<b>2020/21</b>	35	1	28	<b>64</b>
<b>2019/20</b>	32	1	5	<b>38</b>

### 3. ANNUAL STATEMENT OF ASSURANCE

In order to help management evaluate the significance of each assignment, we allocate each audit into a significance band which is simply a method of assessment and prioritisation. For example significance band 1 audits have the greatest “significance” or priority in terms of audit coverage. At the conclusion of each audit, we give an overall opinion on the level of assurance which we consider is provided by the controls in place within the system audited. The following classification of assurance levels has been adopted:

<b>Level</b>	<b>Definition</b>
Unqualified Assurance	The controls appear to be consistently applied.
Substantial Assurance	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
Restricted Assurance	The level of non-compliance identified places the system objectives at risk.
No Assurance	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

The following table summarises the assurance levels recorded in final reports relating to the years 2020/21 and 2019/20, draft reports are not included. The majority of Council systems have achieved the level of Substantial Assurance, see Appendix A:

<b>Final Reports</b>	<b>Total</b>	<b>Unqualified Assurance</b>		<b>Substantial Assurance</b>		<b>Restricted Assurance</b>		<b>No Assurance</b>	
		<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
<b>2020/21</b>	5	0	0	4	80	1	20	0	0
<b>2019/20</b>	27	6	22	14	52	5	19	2	7

The conclusions and assurance levels specified for each audit are used to support the Council’s governance review arrangements, as required by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards.

## 4. RECOMMENDATIONS AND FOLLOW UP IN THE YEAR

### 4.1 Introduction

Our audit recommendations are categorised by three priority levels. These categorisations are described below.

*Priority 1* Major issues that we consider need to be brought to the attention of senior management.

*Priority 2* Important issues which should be addressed by management in their area of responsibility.

*Priority 3* Detailed issues of a relatively minor nature.

### 4.2 Recommendations made

The following table summarises the number of audit recommendations made in our final reports issued during 2020/21, and the management responses, analysed in accordance with the above categories.

<b>Recommendations</b>	<b>Total</b>	<b>Priority 1</b>	<b>Priority 2</b>	<b>Priority 3</b>
Made 2020/21	<b>17</b>	2	8	7
Fully Accepted	<b>17</b>	2	8	7
Partly Accepted	<b>0</b>	0	0	0
Not Accepted	<b>0</b>	0	0	0

Comparative figures for 2019/20 are as follows:

<b>Recommendations</b>	<b>Total</b>	<b>Priority 1</b>	<b>Priority 2</b>	<b>Priority 3</b>
Made 2019/20	<b>71</b>	17	43	11
Fully Accepted	<b>66</b>	16	39	11
Partly Accepted	<b>5</b>	1	4	0
Not Accepted	<b>0</b>	0	0	0

### **4.3 Implementation of recommendations**

During the financial year we have not undertaken any prior year implementation activity (as noted in the Executive Summary). This is being carried forward into 2021/22.

## **5. QUALIFICATIONS TO THE OPINION**

Internal Audit has had predominantly unrestricted access to all areas and systems across the authority and has received appropriate co-operation from officers and Members; the exception being the provision of Part 2 Committee Papers.

## 6. PERFORMANCE

The Public Sector Internal Audit Standards (PSIAs) require Internal Audit to be measured in terms of performance. The indicators below provide information over the arrangements and effectiveness of Internal Audit.

Indicator		2020/21
1	Percentage of Draft reports issued within 10 working days of completion of audit fieldwork.	100%
2	Percentage of Management Responses received within 20 working days of issue of the Draft report.	0%
3	Percentage of Final reports issued within 10 working days of receipt of management response.	100%
4	Percentage of Priority 1 and Priority 2 Recommendations acceptable to the audit client.	100%

## APPENDIX A: PROGRESS AGAINST AUDIT PLAN 2020/21

Report Number	Audit Assignment	System Significance Band	Status	Assurance
20-01	Income Collection	1	Cancelled	
20-02	Housing Benefits	1	Cancelled	
20-03	Council Tax & Council Tax Support	1	Cancelled	
20-04	Business Rates (NNDR)	1	Cancelled	
20-05	Risk Management	1	Cancelled	
20-06	Cash Floats/Receipting Controls	1	Cancelled	
20-09	Performance Management	2	Cancelled	
20-10	Budgetary Control	2	Cancelled	
20-11	Treasury Management	2	Cancelled	
20-12	Car Park Meter Income	2	Cancelled	
20-13	Payroll (incl Expenses)	2	Cancelled	
20-14	Accounts Receivable	2	Cancelled	
20-15	Corporate Control/Governance	2	Complete	N/a
20-16	Main Accounting System & Periodic Controls	2	Q3 complete	N/a
20-17	Procurement (inc. Ordering)	2	Cancelled	
20-18	Accounts Payable	2	Cancelled	
20-19	Housing Rents	2	Cancelled	
20-20	Standing Orders/Financial Regs/Council Plans & Policies	2	Complete	N/a
20-21	Housing Maintenance (Day to day repairs)	2	Cancelled	
	<b>RISK ASSESSED SYSTEMS</b>			
20-08	Fraud and Corruption Survey	N/a	Complete	N/a
20-25	Covid Risk Assessment – Post Assurance Review	N/a	Draft	Restricted
20-26	Probity	N/a	Ongoing	

Report Number	Audit Assignment	System Significance Band	Status	Assurance
	<b>DESIGNATED ANNUAL AUDIT ACTIVITY</b>			
20-22	NFI Responsibilities		Complete	N/a
20-23	Mayor's Account		Cancelled	
20-24	Benefit Certification		Complete	N/a
	<b>Community Organisations</b>			
-	Hawcoat		Deferred to 21/22	N/a
-	Abbotsvale		Deferred to 21/22	N/a
-	Dalton Community Association		Complete	N/a
	<b>IT ENVIRONMENT AUDITS</b>			
IT 75	Information Technology Procedures Review	1	Initial Final	Restricted
20-07	<b>IMPLEMENTATION REVIEW</b>		Complete	N/a

It should be noted that between April and September 2020 Internal Audit undertook almost exclusively the process of evaluating and processing COVID-19 Support Grants, which has clearly impacted on the delivery of coverage. See table below detailing the number and value of grants applications processed and paid, for each of the different funding schemes.

COVID-19 Grant Scheme	Number of Claims paid	Value paid £	Ineligible applications processed	Total processed
Small Business Retail, Hospitality & Leisure	1,014	11,495,000	186	1,200
Discretionary (Round 1)	61	280,000	93	154
Discretionary (Round 2)	18	77,500	43	61
<b>Total</b>	<b>1,093</b>	<b>11,852,500</b>	<b>322</b>	<b>1,415</b>



## APPENDIX B: CONTRACT AUDIT 2020/21

Report Number	Audit Assignment	STATUS	Assurance/ Comment
CR119	Crematorium rebuild	Ongoing	Stages 1-3 findings issued. Further information requested October 2019
CR120	Building Cleaning		Information awaited
CR123	Harding Rise	Ongoing	Stage 1&2 findings issued. Stages 3&4 complete, awaiting Stage 5
CR132	Portland Walk Car Park Maintenance	Stage 1-2 findings issued	Stages 2 & 3 findings produced.
CR133	Insurance		Information awaited
CR134	Public Conveniences – Cleaning contract		Information awaited
CR135	Future High Street Consultancy		Information awaited
CR136	Forum catering & cleaning		Information awaited
CR137	Lift servicing & maintenance		Information awaited
CR138	Electrical Installation Testing		Information awaited
CR139	Electrical Reactive Maintenance		Information awaited