



BARROW BOROUGH COUNCIL

INTERNAL AUDIT ANNUAL REPORT

2021/22

July 2022

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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. 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 2021/22 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 related 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 identified 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 2021/22 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.

2021/22 Year Opinion

This report provides limited assurance that the organisation’s framework of governance, transparency, risk management and control operated satisfactorily during 2021/22.

My detailed opinion is that, for the systems reviewed, the Council has a number of basically sound systems of control in place, although there are certain significant

weaknesses which put some of the system objectives at risk, these mainly relate to areas of contract management and control, leases, procurement and specific individual systems as reported.

Areas where only Restricted Assurance can be provided, relate to the following reports:

- Recruitment;
- Accounts Receivable;
- Covid Risk Assessment – Post Assurance Report;
- Performance Management;
- Insurance; and
- Housing – Staircase cleaning.

Of more concern there are also areas where No Assurance has been provided, these relate to:

- Procurement;
- Forum Catering and Cleaning; and
- Cleaning of Barrow Town Hall and Associated Buildings 2021-23.

In addition, there are five areas where No Assurance has been assigned to initial draft reports, due to the lack of information provided and potential non-compliance (varying levels of information have been provided since the issue of these reports, which will be audited within the 2022/23 plan):

- Future High Street Consultancy;
- Lift servicing & maintenance;
- Electrical Installation Testing;
- Electrical Reactive Maintenance; and
- Heating, Ventilation & Air Conditioning Servicing & Maintenance.

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 (the Audit and Governance Committee). 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 those involved.

Keith Jackson
Head of Internal Audit

1. SERVICE BACKGROUND

1.1 Our reporting lines

In 2021/22 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 Chief Executive 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 and Governance 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 required 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 2021/22 Audit Plan

The Audit Plan for 2021/22 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.

During the year, 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 2021/22 Annual Plan

A detailed analysis of the current situation regarding the 2021/22 Plan is provided in Appendix A.

The assessment of auditable areas has identified 80 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 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	
	2021/22	2020/21	2021/22	2020/21
Planned	39%	39%	63%	81%
Achieved	35%	6%	55%	9%

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.

Calls received:	Revenues/ Benefit related	Staff Related	Other	Total
2021/22	22	0	52	74
2020/21	35	1	28	64

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:

Level	Definition
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 2021/22 and 2020/21, **draft reports are not included**:

Final Reports	Total	Unqualified Assurance		Substantial Assurance		Restricted Assurance		No Assurance	
		No.	%	No.	%	No.	%	No.	%
2021/22	16	0	0	7	44	6	37	3	19
2020/21	5	0	0	4	80	1	20	0	0

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 2021/22 and the management responses, analysed in accordance with the above categories.

Recommendations	Total	Priority 1	Priority 2	Priority 3
Made 2021/22	86	30	50	6
Fully Accepted	75	24	45	6
Partly Accepted	11	6	5	0
Not Accepted	0	0	0	0

Comparative figures for 2020/21 are as follows:

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

4.3 Implementation of recommendations

During the year we have reported on the implementation of 62 agreed audit recommendations made in previous reports. The results are as follows:

	Fully Implemented	Not Implemented	Overtaken By Events	TOTAL
2021/22	26	37	0	63
2020/21	0	0	0	0

For recommendations not fully implemented revised dates have been agreed with management for their implementation. Internal Audit will further review progress on their implementation during 2022/23.

5. QUALIFICATIONS TO THE OPINION

Internal Audit has had predominantly unrestricted access to areas and systems across the authority and has received appropriate co-operation from officers and members in undertaking the majority of the planned activity; the exceptions being the limited co-operation relating to extended lodging allowance payments and the direct 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		2021/22
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.	69%
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 2021/22

Report Number	Audit Assignment	System Significance Band	Status	Assurance
21-01	Income Collection	1	Fieldwork complete	
21-02	Housing Benefits	1	Combined with 22/23	
21-03	Council Tax & Council Tax Support	1	Final	Substantial
21-04	Business Rates (NNDR)	1	Final	Substantial
21-05	Risk Management	1	Combined with 22/23	
21-06	Cash Floats/Receipting Controls	-	Draft	Substantial
21-08	Fraud and Corruption Survey	2	Complete	
21-09	Performance Management	2	Final	Restricted
21-10	Budgetary Control	2	Fieldwork complete	
21-11	Treasury Management	2	Final	Substantial
21-12	Car Park Meter Income	2	Final	Substantial
21-13	Payroll (inc Expenses)	2	Final	Substantial
21-14	Accounts Receivable	2	Final	Restricted
21-15	Corporate Control/Governance	2	Complete	N/a
21-16	Main Accounting System and Periodic Controls	2	Draft	Restricted
21-17	Procurement (inc. Ordering)	2	Final	None
21-18	Accounts Payable	2	Final	Substantial
21-20	Standing Orders/Financial Regs/Council Plans & Policies	2	Complete	
21-22	NFI responsibilities	-	Ongoing	N/a
21-24	Benefit Certification	-	In Progress	N/a
21-25	Business Grant Review	-	Complete	N/a
21-26	Substantive Expenditure Testing	-	Complete	
21-27	Recruitment - Review	-	Final	Restricted
21-28	Arts Council Grant	-	Complete	N/a

Report Number	Audit Assignment	System Significance Band	Status	Assurance
	DESIGNATED ANNUAL AUDIT ACTIVITY			
21-29	Covid Post Grants Assurance Work	-	Complete	
21-30	Probity – Covid Isolation payments	-	Complete	N/a
21-31	Covid Self Isolation Payments	-	Complete	N/a
21-32	Declaration of Interests and Gifts and Hospitality Register	-	Final	Substantial
	COMMUNITY ORGANISATIONS AND MAYOR'S ACCOUNT			
-	Hawcoat	-	Complete	N/a
-	Abbotsvale	-	Complete	N/a
-	Dalton Community Association	-	Complete	N/a
21-23	Mayor's Account	-	Cancelled	N/a
	IT ENVIRONMENT AUDITS			
	N/a			
21-07	IMPLEMENTATION REVIEW		Complete	N/a

APPENDIX B: CONTRACT AUDIT 2021/22

Report Number	Audit Assignment	STATUS	Assurance/ Comment
CR119	Crematorium rebuild	Ongoing	Stages 1-3 findings issued. Further information requested Oct 2019/May 2022
CR123	Harding Rise	Draft in progress	Tbc
CR132	Portland Walk Car Park Maintenance	On-going	Stages 2 & 3 findings issued
CR134	Public Conveniences – Cleaning contract	Draft in progress	Tbc
CR135	Future High Street Consultancy	Initial Draft	No Assurance
CR137	Lift servicing & maintenance	Initial Draft	No Assurance
CR138	Electrical Installation Testing	Initial Draft	No Assurance
CR139	Electrical Reactive Maintenance	Initial Draft	No Assurance
CR140	Heating, Ventilation & Air Conditioning Servicing & Maintenance	Initial Draft	No Assurance
CR120	Cleaning of Barrow Town Hall and Associated Buildings 2021-23	Final	No Assurance
CR133	Insurance	Final	Restricted
CR136	Forum catering & cleaning	Final	No Assurance
CR141	Housing – Staircase Cleaning	Final	Restricted