

## BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

<b>COMMITTEE: JOINT AUDIT AND STANDARDS COMMITTEE</b>	<b>REPORT NUMBER: JAC/21/26</b>
<b>FROM: CORPORATE MANAGER – INTERNAL AUDIT</b>	<b>DATE OF MEETING: 16<sup>th</sup> May 2022</b>
<b>OFFICER: CORPORATE MANAGER – INTERNAL AUDIT</b>	<b>KEY DECISION REF NO. N/A</b>

### ANNUAL INTERNAL AUDIT REPORT 2021/22

#### 1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to inform Councillors of the work undertaken within the Internal Audit Service for the year, 2021/22 and provides Councillors with a review of the variety and scope of projects and corporate activities which are supported through the work of the team.

#### 2. OPTIONS CONSIDERED

- 2.1 This is a regulatory report and there are no options to consider.

<b>3. RECOMMENDATIONS</b>
3.1 That the contents of this Internal Audit report, supported by Appendix A, be agreed.
<b>REASON FOR DECISION</b>
For the Committee to agree the Internal Auditors annual report for 2021/22.

#### 4. KEY INFORMATION

- 4.1 Requirement of Internal Audit - Public Sector Internal Audit Standards (PSIAS)  
The PSIAS require the Corporate Manager – Internal Audit to report periodically to senior management and this Committee on Internal Audit's performance relative to its Internal Audit Plan including significant risk exposures and control issues where relevant, fraud risks and governance issues.
- 4.2 As the Councils' Delivery Programme re-shapes and transforms its services the demand on Internal Audit's services to provide assurance, support, and guidance on a diverse range of activities continues. The Corporate Manager – Internal Audit monitored requests, with a risk-based approach, for the re-allocation of Internal Audit resources from the approved 2021/22 Internal Audit Plan.
- 4.3 There was due consideration in conducting this year's audits to ensure that Internal Audit maintained its objectivity and independence. As further demonstration of organisational independence, the Corporate Manager – Internal Audit can confirm that there has been no inappropriate scope or resource limitations placed upon him.

- 4.4 In line with the Councils' Internal Audit Charter the work was conducted to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal Audit opinion. In doing this it can be confirmed that the work conducted covered the following activities:
- Governance processes
  - Monitoring
  - Ethics
  - Information and Information technology governance
  - Risk Management
  - Fraud management
- 4.5 Audits conducted (as opposed to Audit investigations) are also split into two types, 'Fundamental' and 'Risk' reviews. 'Fundamental' reviews are conducted in the latter half of the financial year to meet with External Audit testing requirements.
- 4.6 The Corporate Manager – Internal Audit is responsible for the delivery of an audit opinion and report that can be used by the Councils to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no significant weaknesses in the processes reviewed. In assessing the level of assurance to be given, the Corporate Manager – Internal Audit has based his opinion on:

- Written reports on all internal audits completed during the course of the year, both assurance and consultancy;
- Results of any follow up exercises undertaken in respect of previous years' internal audit work;
- The results of work of other review bodies where appropriate;
- The extent of resources available to deliver the internal audit work;
- The quality and performance of the internal audit service and the extent of compliance with the Public Sector Internal Audit Standards (PSIAS);
- The impact of Covid-19 and the approach taken by management to evaluate the key governance processes that enable front line Services to operate within a framework of control; and
- Looking at our Business Continuity arrangements and resilience generally.

Audit Opinion – the Corporate Manager – Internal Audit is satisfied that sufficient assurance work has been carried out to allow him to form a reasonable conclusion on the adequacy and effectiveness of each Council's internal control environment.

It is the Corporate Manager – Internal Audit opinion that the Councils' framework of governance, risk management and internal control is '(Sufficient) – Reasonable Assurance' – the system, process or activity should achieve its objectives safely and effectively. However, whilst there are some control weaknesses most key controls are in place and operating effectively. Where weaknesses have been identified

through internal audit review, Internal Audit have worked with management to agree appropriate corrective actions and a timescale for improvement.

## **5. LINKS TO CORPORATE PLAN**

- 5.1 The delivery of a comprehensive Internal Audit service supports the Councils' objectives, in particular ensuring the right people are doing the right things, in the right way, at the right time, for the right reasons.
- 5.2 However, all Internal Audit work has been associated with the Councils' strategic themes and the attached report, Appendix A, provides a summary of the work undertaken by theme. This work will contribute to the 2021/22 overall Internal Audit opinion on the Councils' control environment provided by the Corporate Manager – Internal Audit, as required by the Accounts and Audit (England) Regulations 2015.

## **6. FINANCIAL IMPLICATIONS**

- 6.1 There are no direct financial implications arising from this report. All Internal Audit recommendations must be considered in terms of their cost effectiveness.

## **7. LEGAL IMPLICATIONS**

- 7.1 There are no direct legal implications arising from this report other than the statutory framework under which Internal Audit operates.

## **8. RISK MANAGEMENT**

- 8.1 This report is not directly linked with any one of the Councils' Significant Risks. The key risk, however, is set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Internal controls within each Council may not be efficient and effective.  As a result, each Council may not identify any significant weakness that could impact on the achievement of their aims and/or lead to fraud, financial loss or inefficiency.	Unlikely 2	Bad 3	Councillors receive and approve the internal audit work programme and other reports on internal controls throughout the year.  The work programme is based on an assessment of risk for each system or operational area.

## **9. CONSULTATIONS**

- 9.1 The 2021/22 Internal Audit Plan was approved by the Joint Audit and Standards Committee on 28<sup>th</sup> March 2021 (Paper JAC/20/14), having previously been endorsed by the S151 Officer and the Senior Leadership Team.

As part of the preparation for this Plan, auditors engaged with senior management to identify their view of the coming year's risks linked to the Corporate Plan and Delivery Programme, and to gather and map management assurance across the Councils' functions.

**10. EQUALITY ANALYSIS**

10.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

**11. ENVIRONMENTAL IMPLICATIONS**

11.1 There are no environmental implications arising from this report.

**12. APPENDICES**

Title	Location
(a) Appendix A - Overview of Internal Audit Work	Attached

**13. BACKGROUND DOCUMENTS**

13.1 Internal Audit Plan 2021/22 and Progress Report – Paper JAC/20/14.

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## Appendix A

### Overview of Internal Audit Activity, 12 Months to 31<sup>st</sup> March 2022

#### 1. Introduction

- 1.1 The work completed by Internal Audit for the Financial Year 2021/22 is reported here to the Joint Audit and Standards Committee.
- 1.2 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013, were revised on 1 April 2016 and further revised on 1 April 2017.

#### 2. Internal Audit reports with Adverse Opinions

- 2.1 Of the 14 completed audits only 1 audit has been issued with an audit opinion of 'Limited Assurance' in this period, details of which are recorded in Section 6 below together with all the audits conducted. This audit will be followed up in the first quarter of 2022/23 and will be reported back to this committee later in the year.
- 2.2 As well as conducting audit reviews Internal Audit had significant involvement within the period in a variety of different Council activities/issues, which included:

Section Reference:

- 3 Council Governance**
- 4 Risk Management**
- 5 Probity**
- 6 Audits conducted**
- 7 Business support activities (Covid and non-Covid related)**

#### 3 Council Governance

##### 3.1 Annual Governance Statement (AGS)

Internal Audit has led on the production of the AGS which was completed at the end of the financial year 2021/22 and is being presented to this committee today.

##### 3.2 Statutory Officers Working Group

The Corporate Manager – Internal Audit sits on this group to provide appropriate professional guidance and advice on a range of governance matters.

##### 3.3 Deputy Monitoring Officer

The Corporate Manager - Internal Audit continues to undertake the role of Deputy Monitoring Officer for the Councils with the specific duty to ensure that the Councils,

their officers, and Elected Councillors, maintain the highest standards of conduct in all they do, pursuant to Section 5 of the Local Government and Housing Act 1989, as amended by Schedule 5 paragraph 24 of the Local Government Act 2000.

## **4 Risk Management**

4.1 It is the role of the Audit and Risk Management Services team within the Councils to provide support, guidance, professional advice and the necessary tools and techniques to enable the Councils to take control of the risks that threaten delivery at a strategic and operational level. The role of the team is also to provide a level of challenge and scrutiny to the risk owners. The work of the team will be directed to affect the achievement of the following risk management objectives:

- Align the organisations' culture with the risk management framework.
- Integrate and embed the risk management framework across the organisations.
- Enable the organisations to recognise and manage the risks it faces.
- Minimise the cost of risk.
- Anticipate and respond to emerging risks, internal and external influences and a changing operating environment.
- Implement a consistent method of measuring risk.

4.2 As part of good governance, the Councils' manage and maintain a register of its Significant Risks and Operational Risks - assigning named individuals as responsible officers for ensuring the risks and their treatment measures are monitored and effectively managed.

4.3 Moving forwards, the responsibility for Risk Management oversight will fall under the direction of the Interim Corporate Manager for Policy, Performance, Insight, Risk and Improvement. Full details of the Significant Risk Register and the work overseen by the Interim Corporate Manager will be subject to a separate report being presented to this committee later in the year.

## **5 Probity**

5.1 Full details of the anti-fraud and corruption work undertaken during the year is subject to a separate report that was presented to this committee on 28<sup>th</sup> March 2022 (Paper JAC/21/20) entitled 'Managing the Risk of Fraud and Corruption'.

## **6 Audits conducted**

6.1 In line with the 2021/22 Internal Audit Plan reporting of outcomes is associated with all the Councils' strategic themes and are reported below, with their associated audit opinion on the control environment.

## 6.1.1 Health of the Organisation

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Contract Management	<p>Oversight and management of contracts. The purpose of this review is to ensure:</p> <ul style="list-style-type: none"> <li>○ Contracts have only been extended in accordance with the contract terms and conditions.</li> <li>○ The extension complies with the Contract Procedure Rules.</li> <li>○ Contract monitoring confirms that performance was adequate and contributed to the decision to extend the contract.</li> <li>○ Alternative contract options were considered.</li> <li>○ Value for money is being achieved.</li> <li>○ Have additional costs been incurred as a result of COVID-19 and were they justified?</li> <li>○ Review supply chains in light of COVID-19 impact.</li> <li>○ Consider social values.</li> </ul> <p>The audit scope has been extended to include a review of contract spend.</p>	<p>A general lack of coordination and central responsibility for ensuring contract management is carried out.            Failure to provide adequate training for those staff responsible for managing contracts.            Failure to centrally house and control contract management information.            To confirm that performance against contract is monitored and corrective action is taken where poor performance is identified.            To ensure that the contract is managed in accordance with the Procurement Standing Orders (Contract Management).</p> <p>Expenditure incurred without agreed contract            Costs incurred without clear business needs assessment of service requirement or optimum service delivery.            Expenditure is incurred in excess of agreed contract levels            Overruns compromise procurement policy and best practice model.            Misreporting and execution in accounts            Inappropriate allocation between capital and revenue with errors in depreciation and surplus / deficit reporting            Excessive Expenditure by service remains unchecked            Monitoring and challenge do not identify projection (extrapolation) of consumption and contravention of procurement framework.</p>	<p>Work in Progress – completion date end of May 2022.</p>	-
Corporate Procurement Cards	<p>To seek assurances on the internal controls being exercised over the purchase card process.</p>	<ul style="list-style-type: none"> <li>○ Non-compliance with user guide.</li> <li>○ Cardholders may not be appropriately trained.</li> <li>○ Fraudulent spending patterns may go undetected.</li> </ul>	<ul style="list-style-type: none"> <li>○ Testing identified a number of individual payments exceeding the policy spend limit without supporting evidence. Commissioning and Procurement has already addressed this by requesting that all expenditure exceeding the (new) limit of £300 should be pre-agreed with the authorising manager as a one-off necessary expenditure and evidence maintained.</li> </ul> <p>Good practice identified:</p> <ul style="list-style-type: none"> <li>○ The Councils' policy and procedures are regularly updated and reviewed. All card holders are requested to confirm they have seen and understood any updates. These confirmations are kept on file by Commissioning and Procurement.</li> <li>○ Payments are processed promptly and correctly.</li> </ul>	Reasonable Assurance
Budgetary Control	<p>This review was carried out in August to September 2021 as part of the Internal Audit plan and following a specific</p>	<ul style="list-style-type: none"> <li>○ Inaccurate, incomplete and untimely financial information.</li> </ul>	<p>The review established:</p> <ul style="list-style-type: none"> <li>○ The changes needed for the Chart of Accounts to</li> </ul>	Undertaken as 'Consultancy work' at the

	<p>request from the Assistant Director - Corporate Resources to review current processes within the finance department that operate to produce financial reports to the Councils' Cabinet meetings.</p> <p>The scope includes the following:</p> <ul style="list-style-type: none"> <li>○ How the finance system can be used to eliminate the need for manipulation of data in spreadsheets (source of human error) and how the Chart of Accounts could be better utilised for this purpose staff.</li> <li>○ Recommendations for use of check controls before reports are published.</li> <li>○ The procedures and processes used to generate reports to identify where errors could occur.</li> <li>○ The role that the Finance Business Partners play to assess areas of weakness.</li> </ul> <p>How the report production timetable and month / quarter end processes could be streamlined to ensure earlier report production and sufficient review time, including how monthly soft closes can be achieved to support this.</p>	<ul style="list-style-type: none"> <li>○ Overuse of excel spreadsheets for financial reporting that can lead to human error.</li> </ul>	<p>ensure that it reflects reporting requirements, reduces the need for manipulation of ledger data, and provides more detailed information.</p> <ul style="list-style-type: none"> <li>○ A lack of check controls throughout the process.</li> <li>○ A need to move towards monthly reporting and standardise processes across each of the Business Partners so that best practice is adopted.</li> <li>○ That budget meetings need to be more demonstrably focussed on key financial risks and actions to mitigate these.</li> <li>○ How the quarter end process can be streamlined through an automated process, benefiting from prior monthly checks and reporting, and through reviewing Business Partners' workloads to ensure tighter timetables can be met.</li> </ul>	<p>request of the Assistant Director – Corporate Resources.</p> <p>Further work planned during 2022/23.</p>
<p>Risk Management</p>	<p>The broad objective of the audit is to evaluate whether there is a Risk Management Framework (RMF) in place which can enable the risk management process to be carried out and developed in a comprehensive manner, whereby all significant risks are identified, evaluated, controlled, monitored, and reported in accordance with best practice.</p>	<ul style="list-style-type: none"> <li>○ Poor governance and "Tone of the organisation".</li> <li>○ Reckless risk-taking</li> <li>○ Inability to implement effective risk management processes.</li> <li>○ Non-existent, ineffective or inefficient risk assessments.</li> <li>○ Not integrating risk management with strategy setting and performance management.</li> </ul>	<ul style="list-style-type: none"> <li>○ The assurance framework within which the Significant Risks Register operates can be improved to include assurances received on mitigating actions and linking risks to individual corporate objectives.</li> <li>○ Recommendations have been made to enhance the Risk Management Strategy when it is next reviewed.</li> <li>○ Given the wide remit of the Internal Audit and Risk Management Services team, and the current level of resource available, a recommendation has been also made to consider re-instating a dedicated risk management resource.</li> </ul> <p>Good practice identified:</p> <ul style="list-style-type: none"> <li>○ All Risks in the Significant Risk Register (SRR) had Risk Owners, Cabinet member leads, mitigation actions and all other areas of the SRR was completed.</li> <li>○ Risks included within the SRR includes the original, current and target risk scores.</li> </ul>	<p>Reasonable Assurance</p>
<p>Payroll</p>	<p>Identify and test the design and operating effectiveness of key controls in relation to the Councils' payroll processes (Inc. starters and leavers and changes to payroll standing data).</p>	<ul style="list-style-type: none"> <li>○ Payment approval process is ineffective leading to delays of payments.</li> <li>○ Changes to payroll standing data may not be adequately controlled and processed promptly leading to</li> </ul>	<ul style="list-style-type: none"> <li>○ All key controls around starters, leavers and variations to pay were in place and operating effectively.</li> </ul>	<p>Substantial Assurance</p>



		<p>unauthorised access and fraudulent activity.</p> <ul style="list-style-type: none"> <li>o Sensitive payroll data is not adequately protected leading to unauthorised access to payroll information and fraudulent activity.</li> <li>o No recovery of employee debt leading to council loss of income.</li> <li>o Starters and leavers may not be properly added or removed from the payroll system in a timely manner leading to dummy employees being registered on the payroll system and incorrect continuation of salary in the case of leavers.</li> <li>o Weak Management Reporting leading to anomalies not being identified, corrected and reported upon as appropriate, nor would there be any Senior Management or Member oversight.</li> </ul>		
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## 6.1.2 Environment

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Climate Change	The purpose of the audit is to undertake a 'healthcheck' of the Carbon Reduction Management Plan and provide management with a position statement against the Plan.	<ul style="list-style-type: none"> <li>o Risks related to the transition to a lower-carbon economy - Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to the Councils.</li> <li>o Policy and Legal Risks - Policy actions around climate change continue to evolve. Their objectives generally fall into two categories—policy actions that attempt to constrain actions that contribute to the adverse effects of climate change or policy actions that seek to promote adaptation to climate change. The risk associated with and financial impact of policy changes depend on the nature and timing of the policy change. Another important risk is litigation or legal risk. Recent years have seen an increase in climate related litigation claims being brought before the courts by property owners, and public interest organisations. Reasons for such litigation include the failure of organisations to mitigate impacts of climate change, failure to adapt to climate change, and the insufficiency of disclosure around material financial risks. As the value of loss and damage arising from climate change grows, litigation risk is also likely to increase.</li> <li>o Technology Risk - Technological improvements or innovations that support the transition to a lower-carbon, energy efficient economic system could have a significant impact on the Councils. For example, the development and use of emerging technologies such as renewable energy, battery storage,</li> </ul>	<ul style="list-style-type: none"> <li>o Timescales has been incorporated within the Carbon Reduction Plan (CRP), however there is no evidence of milestones included for proposed actions within the CRP or in the Environmental Delivery Plan (EDP).</li> <li>o Fields related to 'Funding', are generally not completed within the EDP spreadsheet which makes it unclear as to the financial status of each activity.</li> <li>o Some monitoring documentation provided by project leads were not completed in full.</li> </ul> <p>Good practice identified:</p> <ul style="list-style-type: none"> <li>o The Environmental Delivery Plan is regularly reviewed and monitored by the Service Improvement Advisor for Environment &amp; Commercial Partnerships.</li> <li>o Each individual proposal and activity have a designated Project Lead that manages each project.</li> </ul>	Reasonable Assurance

		<p>energy efficiency. New technology will replace old systems and may disrupt some parts of the Councils' business.</p> <ul style="list-style-type: none"> <li>o Market Risk - There may be shifts in supply and demand for certain services and products currently provided by the Councils.</li> <li>o Reputation Risk - Climate change has been identified as a potential source of reputational risk tied to changing customer or community perceptions of an organisation's contribution to or detraction from the transition to a lower-carbon economy.</li> </ul>		
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### 6.1.3 Community

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Asset Community Value	To review the robustness of the process for nomination to ensure that the actual current (or recent past) use of ACVs must further the social wellbeing or social interests of the local community.	<ul style="list-style-type: none"> <li>o Policies and Procedures - Policies and procedures may be out of date, or legislation ambiguous.</li> <li>o Roles and Responsibilities - Staff unclear of their role and purpose of bid.</li> <li>o System Controls - Approval process is not robust.</li> <li>o Monitoring and Reviewing - Non-compliance with policy, procedures and no monitoring outcomes or reporting.</li> </ul>	<ul style="list-style-type: none"> <li>o The Policy requires further clarity regarding the processes and areas of responsibility.</li> <li>o The decision for approving or rejecting an application is not published online as required within the policy.</li> </ul> <p>Good practice identified:</p> <ul style="list-style-type: none"> <li>o Application outcomes are reported monthly to the Portfolio Holders and Cabinet Members by the Corporate Manager, Communities.</li> </ul>	Reasonable Assurance
Planning Enforcement	To review the prioritisation of limited resources, ensuring the prompt completion of prioritised investigations and referrals, and that case sign-offs have been correctly exercised.	<ul style="list-style-type: none"> <li>o Policies and Procedures - Guide/flowchart is not adhered to</li> <li>o Staff unclear of their responsibilities</li> <li>o DMS/Uniform is not utilised to its full potential or purpose</li> <li>o Performance (Monitoring and Reviewing) - Non-compliance with guide/flowchart, abnormal activity may go undetected and key targets missed</li> </ul>	<ul style="list-style-type: none"> <li>o The case allocation and logging process needs strengthening.</li> <li>o It is not clear from testing whether allocated caseloads are balanced in terms of quantity and complexity. There was no strong correlation between missed case deadlines and officer professional grade.</li> <li>o Guidance on the workflow for officers needs to be developed and the significance of key controls explained to officers in the team.</li> </ul> <p>Good practice identified:</p> <ul style="list-style-type: none"> <li>o Although the introduction of the process flowchart requires further work the Planning Enforcement service area deserves credit for pursuing a transformational approach to embed more efficient and effective working processes.</li> </ul>	Limited Assurance – Follow Up audit planned early 2022/23.

Community Grant Funding	To review the robustness of the process for ensuring the actual current (or recent past) Communities grant applications assist our communities to become more sustainable.	<ul style="list-style-type: none"> <li>○ Policies and Procedures - Policies and procedures may be out of date, or legislation ambiguous.</li> <li>○ Roles and Responsibilities - Staff unclear of their role and purpose of bid.</li> <li>○ System Controls - Approval process is not robust.</li> <li>○ Monitoring and Reviewing - Non-compliance with policy, procedures and no monitoring outcomes or reporting.</li> </ul>	<ul style="list-style-type: none"> <li>○ The application sign-off process requires further strengthening.</li> </ul> <p>Good practice identified:</p> <ul style="list-style-type: none"> <li>○ The Community Grant Guide is followed, is fit for purpose and up to date.</li> <li>○ Extensive pre-application engagement is provided to the communities to ensure their application is eligible and has the best outcome for the community.</li> <li>○ All authorised grants meet the criteria for sign off and payments post project completion.</li> <li>○ Progress and outcomes are reported regularly to stakeholders</li> </ul>	Reasonable Assurance
National Test and Trace Government Funding	Purpose of the grant review is to ensure that expenditure is lawfully incurred or to be incurred in relation to the mitigation against and management of local outbreaks of COVID-19.	<ul style="list-style-type: none"> <li>○ Failure to comply with the prescribed conditions will result in either the grant being reduced, suspended or being withheld.</li> <li>○ Any expenditure that fails to comply with the prescribed conditions shall immediately become repayable to the Minister of State.</li> </ul>	The conditions attached to the Test and Trace Grant Determination (2020/21) No 31/3337 have been complied with.	Prescribed declaration presented to the Ministry for Housing, Communities and Local Government via the administrating authority, Suffolk County Council.

## 6.1.4 Housing

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Housing – Health and Safety – Follow Up audit (previous audit opinion assessed as ‘Limited Assurance’)	The purpose of the review was to ascertain and report on whether the organisation has appropriate policy/procedures to ensure actual compliance (in terms of completion of the statutory checks) with both statutory and regulatory health and safety requirements/best practice.	<ul style="list-style-type: none"> <li>○ A lack in effective management through an improvement plan may lead to failure in providing sufficient compliance assurance.</li> <li>○ Weak communications and monitoring of performance may lead to failure in identifying opportunities for improvements.</li> <li>○ Failure to implement an agreed Compliancy Action Plan may lead to a lack of focus and critical deadlines for compliance improvements being missed.</li> </ul>	<ul style="list-style-type: none"> <li>○ Improvements have been made since the last audit of compliance with Health and Safety regulations for housing services, however some recommendations are still to be implemented although these are currently being worked on.</li> <li>○ A full compliance dashboard is in the process of being introduced. It is currently being tested in order to resolve system issues.</li> <li>○ Both the Electrical Safety and Lift Maintenance Policy have been drafted, but they have not yet been reviewed and agreed.</li> <li>○ The Fire Risk Management Policy/Procedures dated August 2020 were approved by the Corporate H&amp;S Board in September 2020.</li> <li>○ Housing Management Team (HMT) have an overarching risk register,</li> </ul>	Reasonable Assurance

			which had been reviewed and highlighted risk owners and mitigating actions.	
Disabled Facilities Grants	This audit focused on the administration function to ensure grants are awarded in accordance with the Councils' criteria and the conditions set by Central Government.	Funding is not given to the correct people, meeting the correct criteria, or reclaimed appropriately.	The conditions attached to the Disabled Facilities Capital Grant Determination (2018-19) No [31/3337] have been complied with.	Prescribed declaration presented to the Ministry for Housing, Communities and Local Government via the administering authority, Suffolk County Council.

## 6.1.5 Customers and Wellbeing

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
<p>Shared Revenues Partnership (SRP) – Business Rates and Council Tax, 2020/21.</p> <p><b>Note:</b> This work is undertaken by Ipswich Borough Council's Internal Audit Section as the Partnership's host authority.</p>	<p>The objective of the audit was to evaluate the operation of controls and assess their effectiveness in mitigating risks to the business objective relating to Business Rates.</p>	<ul style="list-style-type: none"> <li>Incorrect multipliers used to calculate business rate billing and inadequate controls over the billing process resulting in under or overcharging rate payers may lead to reputational damage, non-compliance with legislation and financial loss.</li> </ul>	<ul style="list-style-type: none"> <li>One low level corporate risk was identified involving the need for a secondary officer check of NNDR parameters with supporting evidence to avoid potential errors.</li> </ul> <p>Effectively functioning controls include:</p> <ul style="list-style-type: none"> <li>Rateable values on the Northgate system are reconciled on a regular basis to the figures received by the Valuation Office on a regular basis. This enables reliance on the accuracy of the rateable values recorded on the Northgate system.</li> <li>Exemptions, reliefs, and discounts applied to accounts are supported by evidence of eligibility.</li> <li>There is an effective process in place to ensure that only valid refunds are authorised in line with the scheme of delegations.</li> <li>There are controls in place to ensure that only accurate and authorised refunds are processed via the bacs system.</li> <li>NNDR records are reconciled to the general ledger and to the receipting system (for income) monthly.</li> </ul>	<p>Opinion for both Councils relating to Business Rates and Council have been assessed as Effective – Evaluated controls are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are being met</p>
	<p>The objective of the audit was to evaluate the operation of controls and assess their effectiveness in mitigating risks to the business objective relating to Council Tax</p>	<ul style="list-style-type: none"> <li>Failure to ensure that billing and collection arrangements are robust and adequately applied.</li> </ul>	<p>Effectively Functioning Controls include:</p> <ul style="list-style-type: none"> <li>Precepts have been entered onto the Council Tax system accurately and were reviewed by a Senior Officer.</li> <li>Exemptions, reliefs, and discounts applied to accounts are supported by evidence of eligibility.</li> </ul>	

			<ul style="list-style-type: none"> <li>o Council Tax records are reconciled to the general ledger and to the receipting system (for income) monthly.</li> <li>o The resolution of unidentified receipts in the suspense account was found to be effective and timely.</li> </ul>	
Cyber Security review	<p>The review considers the Cyber Security controls in place at the Councils using the National Cyber Security Centre's "10 steps to Cyber Security" framework covering the following areas:</p> <p>Risk Management Regime; Network Security; User Education and Awareness; Malware Prevention; Removable Media Controls; Secure Configuration; Managing User Privileges; Incident Management; Home and Mobile Working; and Monitoring</p>	<ul style="list-style-type: none"> <li>o Malware – malicious software that includes viruses, Trojans, worms or any code or content that could have an adverse impact on organisations or individuals.</li> <li>o Ransomware – a kind of malware that locks victims out of their data or systems and only allows access once money is paid.</li> <li>o Phishing – emails purporting to come from a public agency to extract sensitive information from members of the public.</li> </ul>	<ul style="list-style-type: none"> <li>o The organisation has demonstrated that its infrastructure is sufficiently managed and secure to connect to the Public Service network.</li> <li>o The organisation has not assessed and registered risks specific to its IT and cyber security.</li> <li>o The organisation issues staff with removable media. However, the organisation does not maintain records of issued media, its approval and secure disposal.</li> </ul> <p>Good practice identified:</p> <ul style="list-style-type: none"> <li>o The organisation has established mandatory cyber security training, which is regularly delivered to its staff.</li> <li>o The organisation's infrastructure security is managed by Suffolk County Council and there is an agreement in place.</li> </ul>	Reasonable Assurance
Health and Safety	<p>Testing of a sample of contracts will be selected to ascertain:</p> <ul style="list-style-type: none"> <li>o the specific Health &amp; Safety requirements within the contract,</li> <li>o the monitoring processes operated to-date,</li> <li>o reporting and follow up of issues identified,</li> <li>o linkage with the Councils' overall contract performance monitoring process.</li> </ul>	<ul style="list-style-type: none"> <li>o The safety, health, welfare and wellbeing of individuals may be compromised.</li> </ul>	Work in progress – completion date end of April 2022	-
Insurance	<p>The review considers the main risks in relation to insurance and to review the key systems and controls in place to address these.</p>	<p>Policies &amp; Procedure</p> <ul style="list-style-type: none"> <li>o Insurance Claims Policies and Procedures may not have been approved corporately leading to an impact on service delivery, reputational damage and potential financial loss.</li> <li>o Staff involved with processing and handling Insurance Claims may have insufficient knowledge to effectively manage any new insurance claims, which may lead to financial loss and reputational damage.</li> </ul> <p>Prevention and Detection of Fraud</p> <ul style="list-style-type: none"> <li>o Failure to acknowledge the risk of fraudulent Insurance Claims may result in the opportunity for fraud to remain undetected.</li> <li>o Measures to prevent and detect fraud may not currently be in place leading to potential fraudulent</li> </ul>	Work in progress – completion date end of April 2022	-

		<p>claims being paid out by the Councils resulting in financial loss and reputational damage.</p> <p>Management of Insurance Claims</p> <ul style="list-style-type: none"> <li>Failure to effectively and efficiently manage and monitor insurance claims received by the council may lead to increased cost and reputational damage.</li> </ul>		
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### 6.1.6 Assets and Investments

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Gateway 14	<p>The audit reappraised the function of the structure; composition and operation of the organisation in line with its terms of reference; considered the oversight, reporting and escalation mechanisms and decision-making framework; assurance on the independence selection and appointment and awarding of contracts.</p> <p>The audit reappraised the function of the structure; composition and operation of the organisation in line with its terms of reference; considered the oversight, reporting and escalation mechanisms and decision-making framework; assurance on the independence selection and appointment and awarding of contracts.</p>	<ul style="list-style-type: none"> <li>The actions of the Board, including the development of strategic objectives and legal frameworks, are taken without due consideration of the impact on the organisation.</li> <li>Non-executive directors of the Board are unable to give independent, robust challenge.</li> <li>The Board does not have sufficient, complete or timely information on which to base its decisions.</li> <li>Evidence of the decisions made by the Board, including the challenge process, is not retained and/or is not transparent in confirming the decision process.</li> <li>The companies set up by the Board may not fulfil their obligations.</li> </ul>	<ul style="list-style-type: none"> <li>G14 Ltd.'s Articles of Association are in place and registered with Companies House.</li> <li>A declaration of interest register is maintained for G14 Ltd directors, which agrees to the active directors logged at Companies House.</li> <li>G14 management accounts are circulated to Board members for review in advance of the G14 Ltd Board meetings.</li> <li>Minor issues were found in respect to the risk register and responsibilities/ timelines for mitigating actions.</li> </ul> <p>Good practice identified:</p> <ul style="list-style-type: none"> <li>Gateway 14 Ltd Board reports on progress of the G14 project to MSDC (Suffolk Holdings) Ltd Board who in turn reports to the Mid Suffolk District Council.</li> <li>The 'Environmental Health Land and Contamination' and the 'Environmental Health Air Quality' consultations are available on the Council's website.</li> </ul>	Substantial Assurance
Babergh Holding and Mid Suffolk Holding Companies		<ul style="list-style-type: none"> <li>Communications from the Board are not effective or timely meaning that the Council cannot place reliance on the workings of the Board.</li> </ul>	<ul style="list-style-type: none"> <li>The Governance Strategy which supports the detail of the functioning of the Board requires review; matters reserved for shareholders is not documented.</li> <li>The minutes of Board meetings are not clear as to who is a director, a decision-maker, and who is in attendance with no voting rights.</li> <li>Regular updates from the Holding Companies' Boards to Council Cabinets are not provided by the Portfolio Holders.</li> <li>The Risk Registers contain an initial and a</li> </ul>	Reasonable Assurance

			<p>target risk score but do not include a current score; dates by which mitigating actions are due are required.</p> <p>Good practice identified:</p> <ul style="list-style-type: none"> <li>○ Full Council, February 2021, approved the Joint Capital and Joint Investment Strategies which gave detail of the ongoing investments in, and priorities of the Growth Companies.</li> <li>○ The Annual Accounts have been filed with Companies House on a timely basis. Prior to approving the Annual Accounts Board training was provided by the Holding Companies' Auditors.</li> </ul>	
Babergh Growth and Mid Suffolk Growth Companies			<ul style="list-style-type: none"> <li>○ A review of the Board, the Chair and the members with regard to their effectiveness, performance, capability and suitability is yet to be carried out.</li> <li>○ The Babergh and Mid Suffolk (BMS) Invest Complaints Management Strategy, Health and Safety Policy and Business Continuity Plan need updating.</li> <li>○ BGL and MSGL have articles of association, which cover areas such as directors' powers and responsibilities.</li> <li>○ A declaration of interest register was maintained for BGL and MSGL directors, which was cross referenced to the active directors logged at company house.</li> </ul> <p>Good practice identified:</p> <ul style="list-style-type: none"> <li>○ The rights of the shareholders are clearly set out in the BGL and MSGL Shareholders' Agreements, both of which have been signed by the various parties.</li> <li>○ The Trading Companies Structure shows BGL and MSGL report to BMS Council's Holding companies respectively, who in turn report to their local authorities.</li> </ul>	Reasonable Assurance
Asset Management	To provide assurance over the adequacy and effectiveness of current controls over Asset Management and provide guidance on how to improve the current controls going forward.	<ul style="list-style-type: none"> <li>○ There may be no formally documented asset management policy in place leading to inconsistencies in how Council assets are managed.</li> </ul>	<ul style="list-style-type: none"> <li>○ There is an approved Strategic Asset Management Plan (SAMP) in place which provides a framework for managing the Councils' portfolio going forward.</li> </ul>	Substantial Assurance

		<ul style="list-style-type: none"> <li>○ There may be insufficient controls in place for recording and accounting for fixed asset additions and disposals resulting in incorrect accounting treatment and incomplete asset registers.</li> <li>○ There may be inadequate procedures in place in relation to the monitoring and safeguarding of Council assets leading to increased risk of misappropriation of assets.</li> <li>○ There may be insufficient insurance cover in relation to Council assets resulting in financial loss to the Council.</li> </ul>	<ul style="list-style-type: none"> <li>○ Two new policies were also approved as part of the SAMP approval process, ensuring that fundamental processes such as acquisitions, disposals, and transfers from the Council's to the community are included.</li> <li>○ A walk through of the annual reconciliation process between the Fixed Asset Module and ledger confirmed this is a robust process. However, subsequent quarterly reconciliations have not been undertaken due to the long delay in the end of year audit.</li> <li>○ There were no exceptions raised from sample testing for valuations, acquisitions, depreciation and disposals.</li> </ul> <p>Good practice identified:</p> <ul style="list-style-type: none"> <li>○ The SAMP compares well with other local authority asset management strategies.</li> </ul>	
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6.2 In undertaking this work there was due consideration to ensure that Internal Audit maintained its objectivity and independence. The prioritisation of work took account of the requirements of the approved audit plan.

Objectivity was maintained in that the auditors had no personal or professional involvement with or allegiance to the area audited. The determination of appropriate parties to which the details of an impairment to independence or objectivity is disclosed was dependent upon the expectations of the activity and was expressed during the planning of each audit.

6.3 Work conducted during the year compared to the approved 2021/22 Audit Plan

The audit plan was approved by this committee on 29<sup>th</sup> March 2021 (Paper JAC/20/14) and initially Internal Audit work conducted is derived from this source. The Corporate Manager for Internal Audit exercised discretion at the time of drafting the specific audit briefs to ensure that the work was still appropriate and of a sufficient risk ranking to continue the review.

Two audits, the General Ledger and Safeguarding review have been deferred until 2022/23 due to the request from management for continued input from the internal auditor to support the Business Cell responsible for the administration of issuing grants to support businesses. The role of the internal auditor is to provide a level of assurance that funds are only paid to eligible businesses and ensuring that appropriate action is taken to recover any funds that have been paid out fraudulently or in error. The auditor will still focus on the end-to-end process of the business grant funding from receipt of application to issue of payment and any post-event assurance undertaken by liaising and reporting to Department for Business, Energy & Industry



Strategy (BEIS). This assurance work will continue into 2022/23 following the recent Government announcement to issue energy rebate payments.

## 6.4 Performance review

6.4.1 Audit clients continue to express a high level of satisfaction with the service delivered. The latest figures are based on a 50% return of the completed customer satisfaction surveys.

	20/21	21/22
<b>Before the Audit</b>		
Were you given adequate notification of the audit?	100%	100%
Were you informed of the audit objectives?	100%	100%
Were you able to discuss with the auditor the risks you felt should be addressed?	100%	100%
<b>Carrying out the Audit</b>		
Did you feel that an environment of trust and confidence was achieved?	100%	100%
Was the audit carried out in an efficient and timely manner?	100%	100%
If not, were you kept informed of the progress towards final report?	100%	100%
Did the auditors work in a professional and helpful manner, with appropriate integrity?	100%	100%
<b>Reporting the Audit</b>		
Were you given the opportunity to discuss the findings with the auditor throughout the audit as well as at draft report stage?	100%	100%
Were the findings adequately supported by evidence?	100%	100%
Were the recommendations in the final report practical?	100%	100%
Was the report issued in a timely manner following testing?	100%	100%
<b>Will the audit improve internal controls?</b>	80%	75%
<b>Will the audit enable you to improve your service</b>	80%	75%
<b>Overall, how would rate the audit?</b>		
Excellent	80%	80%
Good	15%	20%
Satisfactory	5%	
Poor		
<b>Did the Auditor demonstrate the Councils' values?</b>		
Our People		100%
Our Customers		100%
Being Open and Honest		100%
Taking Ownership		100%
Being Ambitious		100%

6.4.2 Internal Audit continue to perform well against the agreed Key Performance Indicators.

The reduced percentage of the audit plan delivered is as a result of management's request for internal audit's continual support to provide a level of assurance to the Business Cell responsible for the administration of business grants.

	Key Performance Indicator	Target	20/21	21/22
1	100% audit recommendations accepted by management.	90%	100%	100%
2	% high priority recommendations implemented.	100%	100%	100%
3	% of individual audit system reviews completed within target days or prior approved extension by the Corporate Manger – Internal Audit.	100%	100%	100%
4	Average Number of days between the issue of Internal audit briefs and commencement of audit fieldwork.	10 working days	6	5
5	Average Number of days between the completion of audit fieldwork and issue of draft report.	10 working days	7	8
6	Average Number of days between the issue of the draft and final report.	15 working days	8	6
7	The % of internal audits completed to the satisfaction of the auditee (source: returned Customer Surveys)	80% 'Satisfactory'	100%	100%
8	Percentage of the audit plan completed - (below target as a result of management's request for continual support within the Business Cell responsible for the administration of business grants)	90%	58%	76%

## 7 Business support activity (Covid and non-Covid related)

- 7.1 Internal Audit have been part of the Councils' Tactical Management Team (TMT) responsible for managing emerging risks and directing resources to help ensure critical services are maintained across the two districts.
- 7.2 The Corporate Manager for Internal Audit supported the Staff Matters Cell responsible for taking a co-ordinated approach to different factors affecting staff during the pandemic and to look at the preparation of policies, procedures and protocols. In addition, the Cell was responsible for maintaining the 'Redeployment List' and advising on requests made for additional resources to support TMT decisions.
- 7.3 A member of the Internal Audit team is supporting the Councils' Business Cell by providing assurance over the administering of business grant schemes announced by Central Government. The work includes ensuring that the prescribed criteria in terms of eligibility is correctly applied and met and managing the risk of fraud using available digital assurance tools, such as Spotlight.
- 7.4 The Corporate Manager for Internal Audit supported the Public Realm Working Group tasked with reviewing the Councils' service provision with responsibility for providing advice and guidance on governance matters including risk.

## 8. Resources

- 8.1 The work of Internal Audit is resourced from existing staff and from an external audit partner. This arrangement still allows a direct internal provision plus the commissioning of external skills and capacity and provides a blend of resources from within the Councils and from an external partner of services.

- 8.2 The option of working with an external partner currently makes good sense in that management still retains control over the internal audit function while at the same time leveraging the internal audit resource of the third-party service provider. It provides access to valuable and diverse specialised skills as needed and achieves a level of flexibility which can be critical in effectively dealing with a range of operational issues.

## **9 Professional Practice**

### **9.1 Membership of audit bodies**

It is important to keep abreast of best professional practice. Internal Audit has strong links with audit colleagues both within Suffolk and nationally and are members of the Suffolk Working Audit Partnership (SWAPs), the Midland Audit Group and Local Authority Chief Auditors Network (LACAN).

### **9.2 Public Sector Internal Audit Standards (PSIAS)**

The team has fully reviewed their working practices to ensure that our Internal Audit documents and processes comply with, and can be evidenced to, the PSIAS.

This has resulted in a refining of the Internal Audit Charter Strategy; Internal Audit Services Manual; Internal Audit Risk Log; Quality Assurance and Improvement Programme; procedure notes; and working papers. These documents are published on the Councils' intranet, 'Connect', and remain subject to regular review.

Subsequent to this exercise the actions arising from the review are materially implemented.

### **9.3 Independence**

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.

During the year the Corporate Manager – Internal Audit relinquished responsibility for overseeing Risk Management and Information Governance/Data Protection arrangements across both Councils. These responsibilities now rest with the Corporate Manager Policy, Performance, Insight, Risk and Improvement and within the Shared Legal Services function respectively.

## **10 Audit opinion**

- 10.1 The Corporate Manager – Internal Audit is responsible for the delivery of an audit opinion and report that can be used by the Councils to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

- 10.2 In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no significant weaknesses in the processes reviewed. In assessing the level of assurance to be given, the Corporate Manager – Internal Audit has based his opinion on:

- Written reports on all internal audits completed during the course of the year, both assurance and consultancy;
- Results of any follow up exercises undertaken in respect of previous years' internal audit work;
- The results of work of other review bodies where appropriate;
- The extent of resources available to deliver the internal audit work;
- The quality and performance of the internal audit service and the extent of compliance with the Public Sector Internal Audit Standards (PSIAS).
- The impact of Covid-19 and the approach taken by management to evaluate the key governance processes that enable front line Services to operate within a framework of control.

Audit Opinion – The Corporate Manager – Internal Audit is satisfied that sufficient assurance work has been carried out to allow him to form a reasonable conclusion on the adequacy and effectiveness of each Council's internal control environment.

- 10.3 It is the Corporate Manager – Internal Audit's opinion that the Councils' framework of governance, risk management and internal control is '(Sufficient) – Reasonable Assurance' – i.e., the system, process or activity should achieve its objectives safely and effectively. However, whilst there are some control weaknesses most key controls are in place and operating effectively. Where weaknesses have been identified through internal audit review, Internal Audit have worked with management to agree appropriate corrective actions and a timescale for improvement.

## **11 Conclusions**

The Corporate Manager – Internal Audit considers that there are no additional audit related issues that currently need to be brought to the attention of this committee.

**Draft Circulation:**

Dave Muller Chair of the Joint Audit and Standards Committee – Mid Suffolk

Bryn Hurren Chair of the Joint Audit and Standards Committee – Babergh

Senior Leadership Team, which include Katherine Steel Assistant Director, Corporate Resources (S151 Officer)