

TEWKESBURY BOROUGH COUNCIL

Report to:	Audit and Governance Committee
Date of Meeting:	21 July 2021
Subject:	Internal Audit Annual Report 2020/21
Report of:	Chief Audit Executive (Head of Corporate Services)
Corporate Lead:	Chief Executive
Lead Member:	Lead Member for Corporate Governance
Number of Appendices:	None

Executive Summary:

The impact of COVID-19 on all public services has been considerable and for internal auditors it has raised the question of whether they have been able to undertake sufficient internal audit work to gain assurance during 2020/21. This is a key consideration to fulfil the requirement of the Public Sector Internal Audit Standards (PSIAS) for the Chief Audit Executive (CAE) to issue an annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion is in turn one of the sources of assurance that the Council relies on for its Annual Governance Statement.

The Chartered Institute of Public Finance and Accountancy (CIPFA) recognise that local government bodies continue to face significant challenges with regards to the response to and the recovery from COVID-19; however, the professional and regulatory expectations on local government bodies to ensure that their internal audit arrangements conform with PSIAS have not changed.

In this difficult situation, the CAE needs to consider whether it can still issue the annual opinion or whether there will need to be a limitation of scope. A limitation of scope arises where the CAE is unable to draw on sufficient assurance to issue a complete annual opinion in accordance with the professional standards. This is an issue not only for the CAE but also for the leadership team and the Audit and Governance Committee which normally rely on that opinion.

With regards to the work of the Council's Internal Audit team during 2020/21, no work on the Internal Audit Plan has been undertaken. With effect from April 2020, the Internal Audit team was deployed to the business cell to support the administration and payment of business grants and staff have remained in that cell for the duration of the financial year. The Internal Audit team has played a crucial role in the payment of grants and the development of payment assurance plans. The team has a detailed and unrivalled knowledge of what is required to deliver the tasks set out by the government and has been working with colleagues in Finance and Revenues to hone the approach. Given the complexity of the grants framework, it was not practical to parachute additional resource into the business cell to enable the Internal Audit team to return to business as usual.

Recommendation:

1. To **CONSIDER** the limitation of scope regarding independent assurance from internal audit on the adequacy of the Council's governance, risk management and control environment for 2020/21.
2. To **CONSIDER** the proposed recovery of the internal audit function during 2021/22.

Reasons for Recommendation:

The Public Sector Internal Audit Standards (PSIAS) require that the Chief Audit Executive (CAE) reports functionally to the board. For the purposes of the Council, the CAE is defined as the Head of Corporate Services and the board is the Audit and Governance Committee. These roles are defined in the Internal Audit Charter. The Charter has been approved by Audit Committee. One example of functional reporting is the Internal Audit Annual Report. PSIAS also requires that the CAE delivers an annual audit opinion and report that can be used to inform the Annual Governance Statement.

Resource Implications:

An additional £10,000 for ICT audit work was approved by Council within the 2021/22 budget setting.

£35,000 of new burdens funding, given to support the delivery of business grants, will be re-directed to support the delivery of the Audit Plan in 2021/22.

Legal Implications:

The Committee will need to be satisfied that the proposed steps will be sufficient to address the CAE's limitation of scope regarding independent assurance from internal audit on the adequacy of the Council's framework of governance, risk management and control environment.

Risk Management Implications:

If the CAE does not report functionally to the board then this does not comply with PSIAS.

If the Council does not have in place a framework of sound governance, risk management and control then there is a risk it will not achieve its objectives.

Performance Management Follow-up:

In a normal environment i.e. the Internal Audit team not re-deployed, all recommendations made from individual audits are followed-up during the year to ascertain if they have been implemented or not. Any audit where a limited or unsatisfactory opinion has been concluded requires the relevant manager to report back to the Committee to give assurance that issues identified have been resolved.

Environmental Implications:

None.

1.0 INTRODUCTION/BACKGROUND

- 1.1** Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.2** The Public Sector Internal Audit Standards (PSIAS) requires that the Chief Audit Executive (CAE) delivers an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement. For Tewkesbury Borough Council, the CAE is defined as the Head of Corporate Services.
- 1.3** In normal circumstances, internal audit work is informed by a six monthly Internal Audit Plan. Each plan is approved by Audit and Governance Committee. For each individual audit assignment, an opinion is given on various elements of the control environment and these opinions are reported to Committee. From the work undertaken in the year an overall opinion should be concluded on the adequacy and effectiveness of the Council's framework of governance, risk management and control. It should be noted that internal audit is only part of the Council's assurance framework and therefore the annual audit opinion is only reflective and restricted to the areas audited during the year.

2.0 IMPACT OF COVID-19

- 2.1** The impact of COVID-19 on all the public services has been considerable and for internal auditors it has raised the question of whether they have been able to undertake sufficient internal audit work to gain assurance during 2020/21. This is a key consideration to fulfil the requirement of the Public Sector Internal Audit Standards (PSIAS) for the Chief Audit Executive (CAE) to issue an annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion is in turn one of the sources of assurance that the Council relies on for its Annual Governance Statement.
- 2.2** The Chartered Institute of Public Finance and Accountancy (CIPFA) recognise that local government bodies continue to face significant challenges with regards to the response to and the recovery from COVID-19. However, the professional and regulatory expectations on local government bodies to ensure that their internal audit arrangements conform with PSIAS have not changed.
- 2.3** In this difficult situation, the CAE needs to consider whether it can still issue the annual opinion or whether there will need to be a limitation of scope. A limitation of scope arises where the CAE is unable to draw on sufficient assurance to issue a complete annual opinion in accordance with the professional standards. This is an issue not only for the CAE but also for the leadership team and the Audit and Governance Committee which normally rely on that opinion.
- 2.4** With regards to the work of the Council's Internal Audit team during 2020/21 no work on the Internal Audit Plan has been undertaken. With effect from April 2020, the Internal Audit team was deployed to the business cell to support the administration and payment of business grants and staff have remained in that cell for the duration of the financial year. This has been the case for the first quarter of 2021/22 and one team member will remain within the business cell probably until the end of the calendar year, heading up the post-grant assurance work.

2.5 The Internal Audit team has played a crucial role in the payment of grants and the development of payment assurance plans. They have a detailed and unrivalled knowledge of what is required to deliver the tasks set out by the government and have been working with colleagues in Finance and Revenues to hone the approach. Given the complexity of the grants framework it was not practical to parachute additional resource into the business cell to enable the Internal Audit team to return to business as usual.

3.0 BUSINESS GRANT ADMINISTRATION

3.1 With completion of the current round of Restart Grants, the business cell will have administered 12 different business grant schemes, some with a number of variations, in the last 14 months and will have paid out well over £30m in grants with over 6,000 individual payments being made. As a service being delivered by the Council on behalf of the Government, this activity, in financial terms alone, dwarfs all other activities of the Council (it is 2.5 times bigger than housing benefit payments) and is therefore subject to significant risk. The urgency for deployment of these schemes to support business very much aligned with the skillset of the Internal Audit team. It has also been necessary to redeploy other key members of staff for significant periods of time, including both the Financial Services Manager and the Revenues and Benefits Manager, in order to successfully manage and deliver these schemes.

3.2 Given the activity undertaken with grants of up to £25,000, there is a significant risk of the schemes being abused and fraudulent claims being made. A robust internal process was required to ensure the public purse is being protected with internal audit best placed to design, deliver and monitor that process. The Government also has its own requirements to provide assurance on the process undertaken by each authority and the validity of every grant that has been paid. Significant skill and resource is required to meet these requirements, with internal audit staff being at the forefront of designing and delivery the checks and reporting required. The Government has been clear that grants paid in error or fraudulently claimed will be the responsibility of the Council and therefore having in place robust system, overseen by the appropriate staff, should reduce the risk of the Council potentially needing to cover significant costs.

3.3 In addition to this, as part of the wider business cell, Internal Audit team members have been part of the day-to-day administration of the grants. This has included directly speaking with businesses on what they may or may not be entitled to, providing advice and obtaining the necessary evidence to support claims, overseeing any relevant appeals process and dealing with refusals. This has meant dealing with some very challenging conversations but also some very rewarding outcomes.

4.0 LIMITATION OF SCOPE

4.1 The redeployment of the Internal Audit team to support the Council's response to COVID-19 has been updated to Audit and Governance Committee during the course of 2020/21. As part of this update the CAE informed the Committee that an annual opinion would not be able to be given on the council's internal control environment. Discussions have been held at Corporate Leadership Team (CLT) throughout the year on the status of internal audit and it was felt that this team remaining within the business cell was critical to the ongoing support to the borough's business community. It was therefore determined no remedial action would be taken to avoid a limitation of scope opinion given by the CAE. In the absence of such an opinion, CLT felt it was important to provide a management assurance report to this Committee on how the internal control environment has been managed during the pandemic. This assurance report will be presented alongside the Annual Governance Statement at the Committee's meeting to be held on 15 September 2021.

- 4.2** A limitation of scope arises where the CAE is unable to draw on sufficient assurance to issue a complete annual opinion. This should not be confused with an adverse opinion, which arises when sufficient work has been completed to enable the CAE to conclude that arrangements are not adequate and effective.
- 4.3** The primary consequence of the limitation is that the leadership team and those charged with governance do not receive independent assurance that the framework of governance, risk management and control is adequate and effective. Without this assurance the organisation should consider the risk of significant control weaknesses, inefficiencies or poor performance remaining unidentified. In addition, opportunities for improvement may be lost. While internal audit can only offer reasonable assurance, not a 100% guarantee, the presence of that reasonable assurance is rightly valued.
- 4.4** Other consequences to consider are as follows:
- The Council will need to highlight the limitation in its Annual Governance Statement when referring to the CAE opinion.
 - The internal audit service as a whole for 2020/21 does not conform with PSIAS. The recovery of the internal audit function during 2021/22 will need to be identified as a significant governance issue within the Annual Governance Statement.
 - The Council's external auditor may take the limitation on the audit opinion or non-conformance with PSIAS into account when reviewing overall governance arrangements under the value for money or best value scope of the external audit.
 - Outside bodies or persons who may have looked to the internal audit opinion as evidence for the organisation's sound governance may draw adverse inferences from the reported opinion.
 - The delivery of the management assurance report has created additional work to compensate for the lack of an audit opinion.

5.0 INTERNAL AUDIT RECOVERY

- 5.1** The recovery of the internal audit function is reflected within the Council's Corporate Recovery Plan. This plan was approved in August 2020 and is monitored on a quarterly basis by the Overview and Scrutiny Committee. It was anticipated the function would be operative at some point during 2020/21. In hindsight, a very optimistic first target date was reported through the recovery plan. What was not envisaged was the ongoing grants offered by central government, the complexity of those grants and the post-grant assurance framework.
- 5.2** The recovery actions detailed within the recovery plan relate to:
- The production of a new six monthly audit plan (this was approved by Audit and Governance Committee in September 2020 but as detailed the resource has not been available to deliver it)
 - Review the whole suite of internal audit recommendations to determine if recommendations remain relevant and timescales for implementation remain feasible (this was reviewed in September 2020 with new dates agreed but this will need to be re-reviewed)

- 5.3** An additional action which sits within the Corporate Services service plan for 2021/22 is to review the Internal Audit Quality Assurance and Improvement Programme (QAIP). This is a document which provides an overview of how the team undertakes its work and an associated action plan to deliver identified improvements. Whilst the majority of improvement actions were suspended in 2020/21, it is positive to report that an action on a team member obtaining a professional qualification is progressing well.
- 5.4** It is also positive that, as part of the Council's budget setting for this financial year, an allocation of £10,000 was approved for the undertaking of ICT audit work. CLT has also committed a further £35,000 from new burden's funding to support the teams' recovery. This will enable additional resource to be brought in, particularly as one member of the team remains deployed within the business cell.
- 5.5** The implementation of these recovery actions within 2021/22 will mitigate the potential of another limitation of scope opinion this time next year.

6.0 OTHER OPTIONS CONSIDERED

- 6.1** None.

7. CONSULTATION

- 7.1** One of the key performance indicators relates to the use of client survey.

8.0 RELEVANT COUNCIL POLICIES/STRATEGIES

- 8.1** Internal Audit Charter and Internal Audit Annual Plan.

9.0 RELEVANT GOVERNMENT POLICIES

- 9.1** None.

10.0 RESOURCE IMPLICATIONS (Human/Property)

- 10.1** None.

11.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

- 11.1** None.

12.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

- 12.1** The work of internal audit supports value for money.

13.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

13.1 Audit and Governance Committee 16 December 2020 – Minute No. A&G.38.2 (continued redeployment of the Internal Audit team)

Audit and Governance Committee 4 November 2020 – Minute No. A&G.29.5
(presentation of 2019/20 annual opinion and horizon statement that it was unlikely a meaningful opinion could be given for 2020/21)

Audit and Governance Committee 23 September 2020 – Minute No. A&G21.1-21.4
(report on business grants post payment assurance framework)

Audit and Governance Committee 29 July 2020 – Minutes No. A&G.9.2 (confirmed redeployment of the Internal Audit team)

Background Papers: CIPFA Guidance to Internal Auditors and the Leadership Team and Audit Committee of Local Government Bodies Head of Internal Audit Annual Opinions: Addressing the Risk of a Limitation of Scope 19 November 2020

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Appendices: None