

TEWKESBURY BOROUGH COUNCIL

Report to:	Audit and Governance Committee
Date of Meeting:	20 July 2022
Subject:	Internal Audit Annual Report 2021/22
Report of:	Chief Audit Executive (Head of Corporate Services)
Corporate Lead:	Chief Executive
Lead Member:	Lead Member – Corporate Governance
Number of Appendices:	None

Executive Summary:

To fulfil the requirement of the Public Sector Internal Audit Standards (PSIAS) the Chief Audit Executive (CAE) is required 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 (AGS).

The Chartered Institute of Public Finance and Accountancy (CIPFA) recognise that local government bodies 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 they can still issue the annual opinion or whether there will need to be a limitation of scope.

With regards to the work of the Council's Internal Audit team, very limited audit work was undertaken during 2021/22 as the team remained deployed within the business cell to support the administration and payment of business grants.

At the time of writing this report, it is positive that the Internal Audit team is operational with a number of audit assignments underway. This will ensure that the CAE can give a meaningful audit opinion for 2022/23.

Recommendation:

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 2021/22 and to note that the internal audit team is now operational and a meaningful audit opinion will be reached for 2022/23.

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 the Audit and Governance 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:

None directly related to this report other than within the recovery plan for the Internal Audit team is additional resource to support the team moving forward.

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.

The limitation of scope opinion may draw adverse comment from the Council's external auditors when assessing the council's value for money arrangements.

Performance Management Follow-up:

This is an annual report from the CAE which summarises the work undertaken during the year.

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 (AGS). For Tewkesbury Borough Council, the CAE role is fulfilled by 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 within the plan, 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.

- 1.4** As reported extensively to this Committee and to Members generally, over the last two years the impact of COVID-19 on all public services has been significant. For internal auditors it has raised the question of whether they have been able to undertake sufficient internal audit work to gain assurance of the adequacy of the internal control environment and report accordingly. To fulfil the requirement of the Public Sector Internal Audit Standards (PSIAS) the Chief Audit Executive (CAE) is required 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 (AGS).
- 1.5** The Chartered Institute of Public Finance and Accountancy (CIPFA) recognise that local government bodies 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 they can still issue the annual opinion or whether there will need to be a limitation of scope. A limitation of scope arises where the 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. A limitation of scope should not be confused with an adverse internal audit opinion.
- 1.6** With regards to the work of the Council's Internal Audit team, very limited audit work was undertaken during 2021/22. As reported to Committee, similar to 2020/21, the team remained deployed within the business cell to support the administration and payment of business grants. 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 worked 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.
- 1.7** At the time of writing this report, it is positive that the Internal Audit team is operational with a number of audit assignments underway. The recovery of the team was reported to Audit and Governance Committee in March 2022 and is covered in greater detail within the report. This will ensure that the CAE can give a meaningful audit opinion for 2022/23.

2.0 IMPACT OF COVID-19 - BUSINESS GRANT ADMINISTRATION

- 2.1** With the cessation of business grants, after two years, the business cell has now been stood down, albeit there remains some limited post grant assurance work to be undertaken. The work of the team has been phenomenal, delivering over 19 different grant schemes, resulting in over 6,000 payments, totalling in excess of £31 million. 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 was 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.

2.2 Given the activity undertaken with grants of up to £25,000, there was a significant risk of the schemes being abused and fraudulent claims being made, as has been proven nationally. A robust internal process was required to ensure the public purse was protected with internal audit best placed to design, deliver and monitor that process. The Government also had 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, resource and diligence was 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, therefore, having in place robust system, overseen by the appropriate staff, should reduce the risk of the Council potentially needing to cover significant costs.

3.0 LIMITATION OF SCOPE OPINION

3.1 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. A limitation of scope opinion for 2020/21 was presented at Audit and Governance Committee on 21 July 2021. Given the Internal Audit team's continued deployment to the business cell for the bulk of 2021/22, for the second year running a limitation of scope opinion is given; however, at this point in time, which was not the case last year, the Internal Audit team is now operational.

3.2 The redeployment of the Internal Audit team to support the Council's response to COVID-19 has been updated to Audit and Governance Committee throughout the period of the pandemic and the approach supported by the Committee. The status of the Internal Audit team was flagged in the external auditor's 2020/21 annual report which was presented at Audit and Governance Committee on 24 March 2022. This was raised as a significant governance risk. Whilst Officers recognise the risk, a robust management response was given due to the mitigating circumstances. Succinctly, the management response covered the following:

- Historically the Council's internal control environment, particularly financial management controls are well managed.
- The value of the business grants and the speed at which they were expected to be paid were of a significant risk to the Council.
- The attributes of the Internal Audit team were an ideal fit to support the business cell.
- Excluding internal audit, the ongoing systems and processes to evaluate and manage risk, controls and governance remained in place.
- For additional assurance, each Head of Service produced a management assurance statement on the adequacy of the control environment within their service area.
- The development of a recovery plan for the Internal Audit team.

3.3 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.

3.4 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 2021/22 does not conform with PSIAS. The continued recovery of the internal audit function during 2022/23 will need to be identified as a Significant Governance Issue within the Annual Governance Statement.
- As for 2020/21, 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.
- Outside bodies or persons who may have looked to the internal audit opinion as evidence for the organisation's sound governance may draw an adverse inference from the reported opinion.
- The delivery of the management assurance report has created additional work to compensate for the lack of an audit opinion.

4.0 INTERNAL AUDIT RECOVERY

4.1 The recovery of the internal audit function is reflected within the Council's corporate COVID-19 recovery plan. This plan was approved in August 2020 and has been monitored on a quarterly basis by the Overview and Scrutiny Committee. Confirmation that internal audit is now operational was confirmed at both Audit and Governance Committee on 24 March 2022 and at Overview and Scrutiny Committee on 7 June 2022.

4.2 Assurance that the team is operational can be evidenced through the following:

- Completed assignment reports on the creditor's system (supplier payments) and certification of the Local Authority Compliance & Enforcement Grant were reported to Audit and Governance committee on 24 March 2022.
- The suite of all outstanding internal audit recommendations has been reviewed and revised implementation dates agreed with relevant managers. A report on this was presented to Audit and Governance Committee on 15 December 2021.
- An Internal Audit Work Plan for the period April 2022-September 2022 was approved by Audit and Governance Committee on 24 March 2022. Work has commenced on that plan with assignments completed in relation to sundry debtors and complaints. Additional certification work is also nearing completion in relation to further COVID-19 grants. An assignment brief has been approved for the commencement of a car park's audit.
- Quarterly meetings have commenced with the Chair of the Committee and Lead Member for Corporate Governance.
- The approval of a Quality Assurance and Improvement Programme (QAIP) for 2022/23 - in layman's terms, a service plan.
- Commitment from Corporate Leadership Team to further invest in the team for the second half of the year.

4.3 The implementation of these recovery actions gives assurance that for 2022/23, the CAE will be able to issue an audit opinion that will fulfil the requirements of PSIAS. This assurance is aligned to the management response given to the concerns raised by the external auditors.

5.0 OTHER OPTIONS CONSIDERED

5.1 None.

6.0 CONSULTATION

6.1 Corporate Leadership Team.

7.0 RELEVANT COUNCIL POLICIES/STRATEGIES

7.1 Internal Audit Charter and Internal Audit Work Plan.

8.0 RELEVANT GOVERNMENT POLICIES

8.1 None.

9.0 RESOURCE IMPLICATIONS (Human/Property)

9.1 None.

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

10.1 None.

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

11.1 The work of internal audit supports VFM and informs the external audit annual opinion.

12.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

12.1 Audit and Governance Committee 15 December 2021 – minute para 39.2 (status of internal audit recommendations)

Audit and Governance Committee 15 September 2021 – minute para 23.2 (Head of Service assurance statements)

Audit and Governance Committee 21 July 2021 – minute para 16.2-16.3 (CAE annual audit opinion confirming limitation of scope opinion)

Audit and Governance Committee 16 December 2020 – minute para 38.2 (continued redeployment of the internal audit team)

Audit and Governance Committee 4 November 2020 – minute para 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 para 21.1-21.4 (report on business grants post payment assurance framework)

Audit and Governance Committee 29 July 2020 – minute para 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