

Local Members Interest
N/A

Audit and Standards Committee - Tuesday 05 July 2022

Internal Audit Outturn Report 2021/22

Recommendation

I recommend that:

- a. Members receive the outturn report containing the annual internal audit opinion for 2021/22.

Report of the County Treasurer

Report

Background

1. This report outlines the work undertaken by Internal Audit in respect of the 2021/22 annual plan.
2. Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements, i.e the control environment of the organisation. Internal Audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.
3. Internal Audit is required by professional standards, i.e.UK Public Sector Internal Audit Standards (PSIAS), to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. In accordance with these requirements the Head of Internal Audit must provide an annual opinion that covers the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:

¹ Public Sector Internal Audit Standards definition of Internal Auditing.

- a. The opinion;
 - b. A summary of the work that supports the opinion; and
 - c. A statement on conformance with PSIAS and the Local Government Application Note (LGAN), highlighting any areas of non-conformance.
4. The underlying principles to the 2021/22 plan were outlined in the Internal Audit Strategy and Plan approved by Members of the Audit & Standards Committee on 13th July 2021. Since the original plan was approved, a number of additional audits have been required to support the Council's continued response to the COVID 19 pandemic including additional grant verification work, whilst some planned reviews were no longer needed and several deferred due to operational requirements including various staff restructures, the implementation of new and revised processes and /system changes as well as the availability to undertake audits in some service areas due to staff absences. However, the net effect is that the key performance target has been achieved.
 5. It should be noted that work is scheduled to meet the requirements of the business area to ensure the greatest benefit is achieved from the audit work. Therefore, it is not uncommon for reports to be at draft report stage at the end of the audit year. In respect of this point, due to the continuing impact of the COVID 19 pandemic and staff availability to finalise draft reports, there were a greater number of reports still at draft report stage as at the end of March/April 2022. However, the Internal Audit Team have continued to proactively seek management responses to all outstanding draft reports and most responses have now been received.
 6. Each control tested as part of an individual audit is evaluated for its adequacy. The table below demonstrates the number of controls that have been evaluated as part of the 2021/22 Internal Audit Plan for systems audits and also the comparison figures for the previous year:

	2020/21	2021/22	Improvement
Controls Evaluated	1,034	1,206	●
Adequate Controls	570 (55%)	773 (64%)	●
Partial Controls	313 (30%)	302 (25%)	●
Weak Controls	151 (15%)	131 (11%)	●

Audit opinions are awarded for individual systems and compliance audits within one of the following categories listed below. Further information as to how these are determined is given in **Appendix 1**:

- a. Substantial Assurance
 - b. Adequate Assurance
 - c. Limited Assurance
7. Paragraphs 9 to 32 provides a high-level summary of the work undertaken by the Section analysed by the following categories:
- a. High Risk Auditable Areas;
 - b. Main Financial Systems;
 - c. Other Systems Audits (reported by exception, i.e only those with "Limited Assurance" and/or those with a High-Level Recommendation);
 - d. Compliance Reviews (including financial management in maintained Schools, comfort funds, Registry Offices and District Offices reviews);
 - e. Special Investigations/Fraud & Corruption Related Work.
8. For those areas awarded 'Limited Assurance', action plans have been or are in the process of being agreed with the relevant Director /Head of Service. During 2021/22, Members of the Audit & Standards Committee have continued to receive full copies of all "Limited Assurance", High Risk Auditable areas (regardless of opinion) and Major Special Investigation reports (i.e greater than £10,000 financial loss/Significant Corruption issues) once finalised. Also, relevant managers have attended the Committee in-year to provide assurance that appropriate action has been taken regarding the implementation of recommendations. Internal Audit will continue to track and report on the implementation of High-Level recommendations, including those contained within reports awarded "Adequate Assurance" as part of our on-line recommendation tracking portal.

2021/22 Audit Plan Outcomes

High Risk Auditable Areas

9. Our Internal Audit and Strategy and Plan Paper identified the top risk audits/reviews for the County Council in 2021/22. These reviews acknowledged the key risk areas and financial pressures within the Council with its continued work on the Council's digital strategy and digital first delivery plan and other IT projects and systems including

the Council's new applicant tracking system, the new occupational health system, sharepoint and EDRMS and the new cloud-based Pensions IT system as well as a continued look at our cyber security arrangements with specific focus on remote working in 2021/22. Internal Audit continued to support the Council's response and recovery work relating to the COVID pandemic including a review of the contact tracing system and the Additional Restrictions Grant (ARG) programme. New areas were also reviewed in 2021/22 including a review of the Council's equality, diversity and Inclusion framework, and the Community Renewal Fund as well as continuing to keep under review the Council's delivery of good governance including transparency of the Council's decision-making processes. A review of the revised processes operating within the Council's brokerage (care) system along with quality audit processes conducted on care assessments were also top risk reviews within the Health & Care environment in 2021/22.

10. The audit opinions for all the high-risk reviews are summarised in the table below:

System Area	2021/22 Opinion	2021/22 Consultancy
*Digital Strategy & Transformation – Digital First Delivery Plan	Substantial Assurance	
Digital Strategy & Transformation - Digital First		✓ Project advisory work
Digital Strategy & Transformation – M365		✓ Project advisory work
* Remote Working - Cyber Security	Substantial Assurance	
*Care Director Software (Adults and Children's modules)	Substantial Assurance	
Culture, Values & Behaviours	Work On-Going	
**Delivering Good Governance - Corporate Decision-Making Arrangements	Draft Report with Management (Substantial Assurance)	
Entrust Contract Management Arrangements	-	✓ Project advisory work
**Business Continuity Management - Organisational Resilience (Supply Chain)	Draft Report with Management (Position Statement)	
Equality, Diversity & Inclusion	Position Statement	
*Back to Business - Additional Restriction Grant (ARG) Programme - Governance	Substantial Assurance	
*Back to Business - Additional Restriction Grant (ARG) Programme Delivery	Adequate Assurance	
*Covid 19 - ASC Rapid Testing Fund (Lateral flow)	Substantial Assurance	

System Area	2021/22 Opinion	2021/22 Consultancy
*Contact Tracing	Substantial Assurance	
*Community Renewal Fund – due diligence	Substantial Assurance	
*Community Renewal Fund – monitoring, management, reporting arrangements and verification of expenditure	Substantial Assurance	
*Brokerage	Adequate Assurance	
**Quality Audit Assessments	Draft Report with Management (Substantial Assurance)	
SEND Transformation - High Needs Block	Cancelled – due to Ofsted reinspection – Deferred to 2022/23	
SEND Transformation - Governance	Cancelled – due to Ofsted reinspection – See work on SEND Strategy Implementation Plan & Children’s & Families new District Model and Panels & Decision Making in 2022/23	

*To be distributed to Audit & Standards Committee members outside of this meeting.

** Currently at draft report stage, therefore any of the high-level recommendations have not been included in this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee.

11. It is pleasing to note that there have been no Limited Assurance reports issued for the top risk reviews carried out in 2021/22.
12. In addition, for those final reports relating to high risk auditable areas, with an opinion of at least “Adequate”, one high level recommendation has been made as follows:

System Area	Areas for Improvement
Brokerage	<ul style="list-style-type: none"> • Policies & Procedures for the Brokering of Care – Some officers within the Brokerage Team did not have copies of the Standard Operating Procedures (SOPs) and did not know how to access them (despite working in the team for between 2 and 5 years).

13. The top risk audit reviews awarded an adequate/substantial assurance opinion, and which have not been previously presented to the Audit and Standards Committee will be distributed to Members of the Committee outside of this meeting for further consideration.

Main Financial Systems

14. Audit coverage of the key financial systems in 2021/22 was in line with the audit strategy:

Main Financial System	2018/19 Opinion	2019/20 Opinion	2020/21 Opinion	2021/22 Opinion	Direction of Travel
Liberata Payroll System	Adequate Assurance	Adequate Assurance	Adequate Assurance	Adequate Assurance	→
Pension Fund - Pensions Payroll	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Custodian, Investment Managers and Pensions Property	Not Covered in 2018/19	Not Covered in 2019/20	Substantial Assurance	Substantial Assurance	→
Pensions Fund – Asset Pooling – Governance & Financial Reporting Arrangements	Project Advisory Work in 2018/19	Adequate Assurance	Substantial Assurance	Substantial Assurance	→
Pensions Fund – Asset Pooling – Investments	Project Advisory Work in 2018/19	Adequate Assurance	Adequate Assurance	Substantial Assurance	↑
Pension Fund – Pension Administration	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Governance (SCC Local Governance)	Substantial Assurance	Substantial Assurance	Substantial Assurance	Not covered in 2021/22	→
Pension Fund - Transitions into Pensions Pool (SCC local arrangements)	Not Covered in 2018/19	Substantial Assurance	Substantial Assurance	Not covered in 2021/22	→
Budgetary Control	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Procure to Pay	Not covered in 2018/19	Substantial Assurance	Not Covered in 2020/21	Substantial Assurance	→
Sales to Cash including Debt Recovery Function & Debt Management	Limited Assurance	Adequate Assurance	General Debts - Limited Assurance CCG/Other Health Body Debts-	Adequate Assurance (Draft Report)	↑

Main Financial System	2018/19 Opinion	2019/20 Opinion	2020/21 Opinion	2021/22 Opinion	Direction of Travel
			Adequate Assurance		
E- Payments	Substantial Assurance	Not Covered in 2019/20	Substantial Assurance	Substantial Assurance	→
Cheque Control	Substantial Assurance	Not Covered in 2019/20	Not Covered in 2020/21	Not Covered in 2021/22	→
Main Accounting Including Bank	Substantial Assurance	Not Covered in 2019/20	Substantial Assurance	Not Covered in 2021/22	→
Treasury Management & Lloyds Link	Substantial Assurance	Not Covered in 2019/20	Substantial Assurance	Not Covered in 2021/22	→
Value Added Tax (VAT)	Substantial Assurance	Not Covered in 2019/20	Not Covered in 2020/21	Substantial Assurance	→

15. It is pleasing to note that there have been no Limited Assurance reports issued for the main financial systems areas in 2021/22 or any high level recommendations made as a result of our audit work carried out in this category.

Other Systems Audits

16. The following system reviews delivered as part of the 2021/22 Internal Audit Plan are reported by exception i.e only those with Limited Assurance and/or those with a high-level recommendation:

System Area	2021/22 Opinion Awarded
Climate Change Action Fund	Limited Assurance
Agency staffing contracts and the appointment and payment of consultants and other self-employed individuals	Limited Assurance
Infrastructure + Asset Data Management	Limited Assurance
Looked After Children - Joint Funding & Complex Needs Placements	*Limited Assurance

**Currently at draft report stage and therefore, the high-level recommendations have not been included within this section of the Outturn report. Once finalised, the completed report will be circulated to Members of the Audit & Standards Committee*

17. The high-level issues arising from these reviews are shown in the table below:

System Area	Areas for Improvement
Climate Change Action Fund	<ul style="list-style-type: none"> • Evidence of How Funding is Spent: Evidence of how funding had been spent was neither being provided to the Council by funding recipients nor was this being proactively chased by the Council due to a lack of capacity/resources.
Agency staffing contracts and the appointment and payment of other self-employed individuals.	<ul style="list-style-type: none"> • Compliance with Procurement Regulations: It could not be demonstrated that the procurement of off-contract locum or consultancy workers was compliant with the Council's Procurement Regulations • Appropriate Approval of Appointments: It could not be demonstrated for contingent workers that appointments had been approved in line with either the Council's Schemes of Delegation (for comensura engagements) or the Council Procurement Regulations (for off-contract engagements). • Maintenance of a Central Record of Contingent Workers: A central record of all agency and off contract locum/ consultant workers engaged by the Council does not exist. • Pre-Employment Checks: pre-employment checks were not being consistently completed and documented for those Contingent Workers tested (Agency Staff and off-contract locum/consultancy workers). • Third party Assurance over Pre-employment checks Undertaken: The Council is not receiving/reviewing regular assurance that pre-employment checks carried out by third party agencies under the Contract are adequate and complete. • Appropriate Approval of Timesheets: auto approval facility (for timesheets) was being regularly replied upon by Managers.
Infrastructure + Asset Data Management ²	<ul style="list-style-type: none"> • Asset Data Management Strategy & Associated Policy: The strategy and policy has not been properly embedded across the Infrastructure + Partnership. • Asset custodians: Asset Custodian designations had neither been formally communicated nor asset custodians formally appointed. • Asset Manager: The Asset Manager role designated to work with Asset Custodians to maintain the inventory of highway infrastructure assets had not been formally appointed or consulted in production of the strategy and policy. • Asset Data Management Plan: An Asset Data Management Plan which is referred to in the asset strategy and policy does not exist.

² The Infrastructure + Asset Data Management Full Report is to be presented at a future meeting of the Committee (date to be confirmed).

System Area	Areas for Improvement
	<ul style="list-style-type: none"> • Asset Data Sharing: Processes are not in place to ensure new assets are captured within the inventory at the end of highways projects. • Asset Data Sharing: Asset Data was not being shared effectively to ensure the asset inventories were up to date. • Footway Asset Inventory: The Pavement Management System (PMS) has not been updated for around 10 years. • Updating the Asset Inventory: Processes are not in place to ensure updates/changes to highway assets are captured in the asset inventory once work on an asset is complete.

18. The following table lists those systems audits where high-level recommendations have been made to address control weaknesses within Adequate Assurance/Position Statement reports:

System Area	Areas for Improvement
Climate Change – Governance Arrangements	<ul style="list-style-type: none"> • Climate Change Budget: For the past two years there has been significant budget underspends in relation to climate change with no clear plans on how funding is to be spent in 2022/23.
Property Lease Management	<ul style="list-style-type: none"> • Effective Debt Recovery Action: Issues were identified regarding debt chasing including significant delays in recovery action being taken. Also, it was found through sample testing that a Lessee was allowed to renew their lease with the Council although they had aged debts.
Deputyships	<ul style="list-style-type: none"> • Bank Reconciliation Process: The auto bank reconciliation process allows for Deputyship Officers to double click on unreconciled transactions which flag as amber, in order to reconcile the transaction without correcting the anomaly in CASPAR.
Growth Hub - Additional Funding - SME Restart & Recovery and Kick Starting Tourism Programme	<ul style="list-style-type: none"> • Grant Application & Claims Process: Weaknesses were identified relating to the evidencing of appraisal/award and rationale for decisions as well as the audit trail relating to claims documentation prior to payment.
Department for Transport - Bus Service Operators Grant	<ul style="list-style-type: none"> • Letting of Local Service Bus Operator Contracts: Weaknesses were found, and improvements identified in relation to the procurement of bus operator contracts including the need for greater transparency and audit trails to support the letting process as well as contract approvals to be in line with the Council's Scheme of Delegation.
Earned Autonomy/Building Resilient Families& Communities (BRFC) Grant verification	<ul style="list-style-type: none"> • Adequacy of Records & Supporting Documentation: Audit testing identified gaps and anomalies within the information being recorded in Capita One and the supporting documentation being retained.

System Area	Areas for Improvement
Azure - IaaS Management, Governance and Security	<ul style="list-style-type: none"> • Azure Cloud Design: A roadmap for the migration of on-premise applications to identify all services that may have potential for migration to the cloud does not exist. • Cloud Adoption: A defined framework to assess the most appropriate platforms for future-hosting of corporate applications and services is not in place.
Parent Pay – School’s Online Payment System	<ul style="list-style-type: none"> • Reconciliations: The audit review found that reconciliations between the income received into the Council’s bank account and the Parent Pay lodgement receipts in My Finance had not been carried out regularly.

19. Complying with the Data Protection Act 2018 which incorporates the General Data Protection Regulation 2018 (GDPR), is an ongoing responsibility. However, it is important that Internal Audit provides ongoing assurance to management in this area as part of its planned systems audit work across the Council. In 2021/22, for all applicable audits i.e where the auditable area being reviewed processes personal data, a GDPR checklist was completed to identify GDPR compliance issues that may be required to be reported.
20. In 2021/22, a GDPR checklist was completed for 11 system audit reviews. Of these, compliance issues were noted in 4 reviews resulting in two medium and three minor points being made. Data retention periods, privacy notices, signed data sharing agreements in place as well as an awareness of how their service’s data is managed against the checklist were common themes arising from these reviews. The recommendations made will continue to be monitored until implemented along with all the other agreed recommendations made as part of the individual audit reviews.



Compliance Reviews Including Financial Management in Maintained Schools

21. Our compliance programme as detailed below is in line with the audit strategy:

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
Compliance: Schools				
High Schools	0	0	1	1
All other schools	0	6	12	18
Schools Compliance – Short Stay Schools (PRUs)	0	0	1	1
Compliance: Other				
Comforts Funds*	10	0	0	10
Educational Endowment Funds*	3	0	0	3
Residential Homes - LD	0	2	0	2
Complex needs Units	0	3	0	3
Compliance Reviews	13 (34%)	11 (29%)	14 (37%)	38

*These reviews related to the audit of accounts and no issues were identified.

Compliance Reviews: Financial Management in Maintained Schools

22. Schools Payroll – For the year 2021/22, payroll services to schools continue to be provided by several providers. As a result, Internal Audit has continued to undertake a themed audit review of payroll services to provide assurance on the internal control environment operating in schools for this area. To ensure efficiency of operation, the payroll themed review was undertaken while the compliance review was completed at the school, hence only one opinion has been given covering all systems at the school. The detail from the themed audit reviews on payroll is provided at paragraph 25 below.

Schools Compliance

23. Our Schools' Compliance Programme for the year ahead is based upon a formal risk assessment methodology which considers; the time since last audit, the previous audit opinion, delegated budget value, whether there is a licensed deficit in place, if the school has community facilities, the last Ofsted rating and submission of the Schools Financial Value Standard (SFVS) return. In addition, for the 2021/22 schools' compliance programme, a Schools Fraud Risk Assessment was also produced which fed into the risk assessment methodology. This meant that several schools that had not been

audited for several years along with some smaller schools were selected for review during 2021/22.

24. From the table above, a large number of schools were awarded a limited assurance opinion during 2021/22 (14 schools) which represents a significant increase based on previous years (three limited assurance opinions were awarded in both 2020/21 and in 2019/20). For those schools being awarded a limited assurance opinion, issues were found relating to number of financial administrative areas including school governance; independent oversight of the school fund account; the proper accounting and banking of income; compliance with Schools Procurement Regulations; purchase card use; lettings governance and administration processes; the proper maintenance of records relating to payroll transactions including authorisations for appointments, terminations, variations and additional hours; the proper authorisation of the payroll; and the appropriateness of payroll validation checks undertaken.
25. Generally, the compliance and payroll themed reviews identified non-compliance with key controls in the following areas:

Schools – General Compliance
Governance

- Scheme of Delegation requires amendment/approval. (15 schools)
- Lack of clear committee minutes taken; Committee Terms of References; inappropriate committee membership and/or infrequent committee meetings held. (3 schools)
- Budgets have not been set, approved, or reviewed in accordance with the Scheme of Delegation and Financial Regulations including budget deficit strategies. (4 schools)
- Key Policies not approved in accordance with the Scheme of Delegation; policies which lacked detail and/or lack of annual review. (14 schools)
- Lack of Governor challenge to budget monitoring reports. (2 schools)
- Financial reports are not submitted to the Committee responsible for Governance of School Finances or reports are inadequate. (6 schools)
- The School Fund is not audited and approved in accordance with requirements of Financial Regulations. (12 schools)
- Pecuniary interest register is not up to date or held/published in accordance with guidance. (10 schools)
- Leases are not in the name of the school, not signed in accordance with Scheme of Delegation /or copies not held by the

- school. *(1 school)*
- Income and expenditure of extended School Provisions (Below the line accounts) are not coded to the correct cost centres. *(4 schools)*

Income

- Income is not banked promptly and/or intact. *(7 schools)*
- Key(s) to safe is/are not held securely or in accordance with the Scheme of Delegation. *(2 schools)*
- Income is not recorded or receipted in accordance with Financial Regulations, including a clear audit trail. *(10 schools)*
- Transfer of income between officers is not evidenced. *(1 schools)*
- *Where schools use a third party security company to collect and to bank income, weaknesses existed in the processes. (2 schools)*
- Banking records are poor and/or not well maintained. *(7 schools)*
- There is a lack of separation of duties or independent check in the income and banking process. *(12 schools)*
- Monies are held on behalf of third parties in the School safe with sums not insured. *(1 school)*
- Cash is not held securely and/or may not be held in accordance with SCC Insurers cash holding limits, including third party monies. *(1 school)*
- Lettings are not administered appropriately, including VAT and evidence of public liability insurance. *(5 schools)*
- The School does not have a lettings policy, lettings policy is out of date or lettings charges are not detailed in the Charging and Remissions Policy. *(2 schools)*
- Lettings charges are not made in accordance with policy or reviewed and approved annually. *(1 school)*
- Invoices have not been raised in the finance system or unofficial invoices have been raised. *(6 schools)*
- No independent spot check of income received/banked is conducted. *(3 schools)*
- No independent reconciliation or review of Parent Pay postings to MyFinance. *(7 schools)*
- Aged Debtor Accounts are not monitored effectively; outstanding payments are not pursued by the School. *(4 schools)*
- Paying in slips are not stamped or evidenced as received by the bank. *(4 schools)*
- The School is using an unofficial online payments system which has not been notified to the S.151 Officer. *(6 schools)*
- Lack of recorded of cash income received in the online payment system. *(1 school)*
- Debtor invoices are not raised promptly. *(2 school)*

- Lack of reconciliations between charges from school meals providers and school meals provided. *(4 schools)*

Procurement

- No financial limits set for declared pecuniary interest in companies. *(2 schools)*
- Value for money procedures such as quotations/tenders not complied with in accordance with Scheme of Delegation or Procurement Regulations. *(17 schools)*
- Procurement/purchase card transactions not in accordance with Scheme of Delegation and Procurement Regulations. *(1 schools)*
- Purchase card used for inappropriate purchases. *(1 schools)*
- Purchase card is not held/ used in accordance with the Purchase Card Manual/ Financial Regulations. *(7 schools)*
- Incorrect accounting for VAT. *(8 schools)*
- Purchase orders are not raised to support procurements in accordance with Financial Regulations. *(16 schools)*
- Contracts are not in place for regular services where they would be expected. *(4 schools)*
- Disposal of assets not undertaken in accordance with scheme of delegation. *(1 School)*

Expenditure

- Expenditure incurred without adequate approval/review in accordance with the Scheme of Delegation. *(2 schools)*
- Contractor(s) used do not have a minimum of £5m public liability insurance in accordance with Procurement Regulations or checks had not been completed. *(2 schools)*
- Lease agreements have continued beyond their expiry date. *(1 school)*

Schools – Payroll Themed Audit

- Authorisations for appointments, terminations and variations could not be evidenced, is not consistent and/or retained on personnel files. *(12 schools)*
- Claim forms not signed by employee and/or not authorised in accordance with the Scheme of Delegation. *(10 schools)*
- Validation checks and agreement/authorisation of the payroll is not evidenced. *(9 schools)*
- Service level agreement for current year to confirm services to be provided/costs not received. *(2 schools)*
- Contract for provision of payroll services not authorised in accordance with Scheme of Delegation. *(3 schools)*
- Procedures not in place to ensure the prompt receipt of contracts of employment. *(1 school)*

- Lack of appointment documentation retained including contract of employment. (5 schools)
- Pre-recruitment checks could not be verified. (3 schools)
- Staff are being paid incorrectly/inconsistently leading to possible under/overpayments. (2 schools)

Compliance Reviews: Other

26. It is pleasing to note that our compliance reviews at Residential Homes (Learning Disabilities) and Complex Needs Units did not highlight any serious key control failings. However, lower level recommendations were made relating to:
- Cash held in safe exceeds the cash holding insurance limit (medium level recommendation).
 - Lack of separation of duties relating to the annual inventory checks. (medium level recommendation)
 - Inventory assets written off was not in accordance with Financial Regulations. (medium level recommendation)
 - The correct processes to follow relating to purchase card cash withdrawals was not always followed. (medium level recommendation)
 - Budget monitoring reports lacked the detail required to effectively scrutinise the finances of the site. (medium level recommendation)
 - Receipts or invoices are not always retained to support petty cash transactions. (low level recommendation)
 - VAT is not always recovered on purchases that are VAT recoverable. (Low level recommendation)

Special Investigations/Fraud & Corruption Related Work

27. A summary of work undertaken in relation to fraud and corruption and specific counter fraud testing is attached as **Appendix 2** in the confidential part of the agenda. Overall, the counter fraud and corruption work carried out in 2021/22 indicated that there have been some lapses in the application of controls leading to an increase in the risk of fraud. The table below summarises those exercises and investigations which involved confirmed financial losses. Reports have been issued/will be issued to ensure that the control weaknesses have been addressed and re-occurrence prevented.

Area	Financial Value £	Commentary
Internal Special Investigations of Fraud/Error – To be Recovered/In Recovery	£32,010	See Appendix 2 – Fraud & Corruption Outturn Report 2021/22 (section 6) for further breakdown.
National Fraud Initiative (NFI) 2020* (all losses will be subject to final validation & recovery action)	£20,597	Losses relate to duplicate invoice payments.
Other Proactive Fraud Exercises including CCM – Fraud & Error	£139,141	A pilot exercise undertaken in 2021/22 matching deceased person data provided by the Registration Service against 'active service provisions' held on Care Director to identify deceased individuals for whom we are continuing to pay care invoices for (up to 30 th March 2022) makes up £124,576 of the £139,141 value reported.
Total financial losses-fraud/error (to be recovered)	£191,748	

**NFI = National Fraud Initiative. This is a national exercise undertaken biennially which is administered by the Cabinet Office. Data submitted by the Council is crossed checked against other public sector organisations' data highlighting potential areas of fraud/error. These are then investigated locally. Detailed reports are reported regularly to Members of the Audit & Standards Committee highlighting the results of this work.*

28. The quantity of concerns referred to Internal Audit is comparable with the previous years at 28 (decrease of six from the previous year), of which 21 related to areas of Council Activity. The volume of referrals not related to Council activity is accepted as a side effect of offering simple, anonymous reporting mechanisms and these are redirected to appropriate bodies. The actual value of referrals is, however, an increase on previous years, with much of the value coming from a proactive data-match of active care provisions to deceased individuals. Steps are taken to identify control weaknesses and root causes of all allegations where there is evidence of fraud or error, to help minimise future risk. The actual financial losses related to our counter fraud work has increased from £184,841 in 2020/21 to £191,748 in 2021/22. Whilst this value is not seen to be material for 2021/22, it is the highest financial loss suffered by the Council for some time.
29. In 2021/22, and connected to the Council's local fraud response, the Internal Audit Service has continued to support the Council's response to the COVID 19 pandemic, undertaking various grant verification exercises relating to infection control grant funding, COVID 19 workforce grant funding and the coronavirus schools fund (exceptional costs) grant funding to name but a few to ensure that COVID 19 funding had been spent by third parties as intended. In

addition, post assurance probity checks have been undertaken on some of the Council's community funding streams including the Community Climate Change Action Fund, the Community Fund – Members Programme and the #DoingOurBit Community Grants Scheme to ensure that grant funding had been spent as intended. Also, Internal Audit resources have been used in-year to provide assurance over the fraud controls proposed for the Council's new applicant tracking system which is scheduled to go live during 2022/23.

30. To evaluate the effect this element of Internal Audit work has upon the wider control environment, a threshold of £300,000 financial loss per annum has been set. When this level is exceeded it is considered to have a material effect on the control environment. This year's level of actual financial loss is considered significant but not material.
31. The table below shows the trend of actual financial loss due to fraud and error over the past decade:

Year	Financial Value	Direction of Travel
2012/13	£29,831	↓
2013/14	£101,753	↑
2014/15	£94,140	↓
2015/16	£73,115	↓
2016/17	£56,690	↓
2017/18	£105,232	↑
2018/19	£77,085	↓
2019/20	£145,848	↑
2020/21	£184,841	↑
2021/22	£191,748	↑

32. The special investigations category consists of two elements: firstly, the financial loss incurred, and secondly an evaluation of the control environment based on the counter fraud and corruption work outlined as a separate item on the agenda. Proposed percentage allocations are as follows:

Special Investigations		Fraud and Corruption Work	
£0 – below £50,000 loss	50%	Procurement /Contract arrangements/Expenditure	10%
£50,000 - £150,000 loss	40%	Physical Cash/Asset management arrangements	10%
£150,000 - £200,000 loss	30%	Payroll /Expenses	10%
£200,000 - £300,000 loss	20%	Payroll /Expenses	10%
Above £300,000 loss	10%	Income	10%

Based on the above criteria the overall score awarded for this category is **70%** (i.e 30% for the special investigations elements as the actual financial loss incurred is between £150,000 to £200,000. 40% has been awarded for the fraud and corruption elements based on the details outlined in the report contained in the confidential agenda).

Overall Opinion on the Control Environment

33. The following methodology outlined below, has been used as the basis to form the annual assessment of the overall internal control environment for 2021/22.

Current Methodology

34. Each separate category of audit work is assessed against a benchmark of achieving a score of at least 90% of the total number of audits performed being awarded an opinion of "Adequate or above" within each category. For a reason of simplicity, each category attracts equal weighting and a simple pass / fail assessment is used to differentiate the overall opinion between "Substantial, Adequate and Limited" as illustrated below:

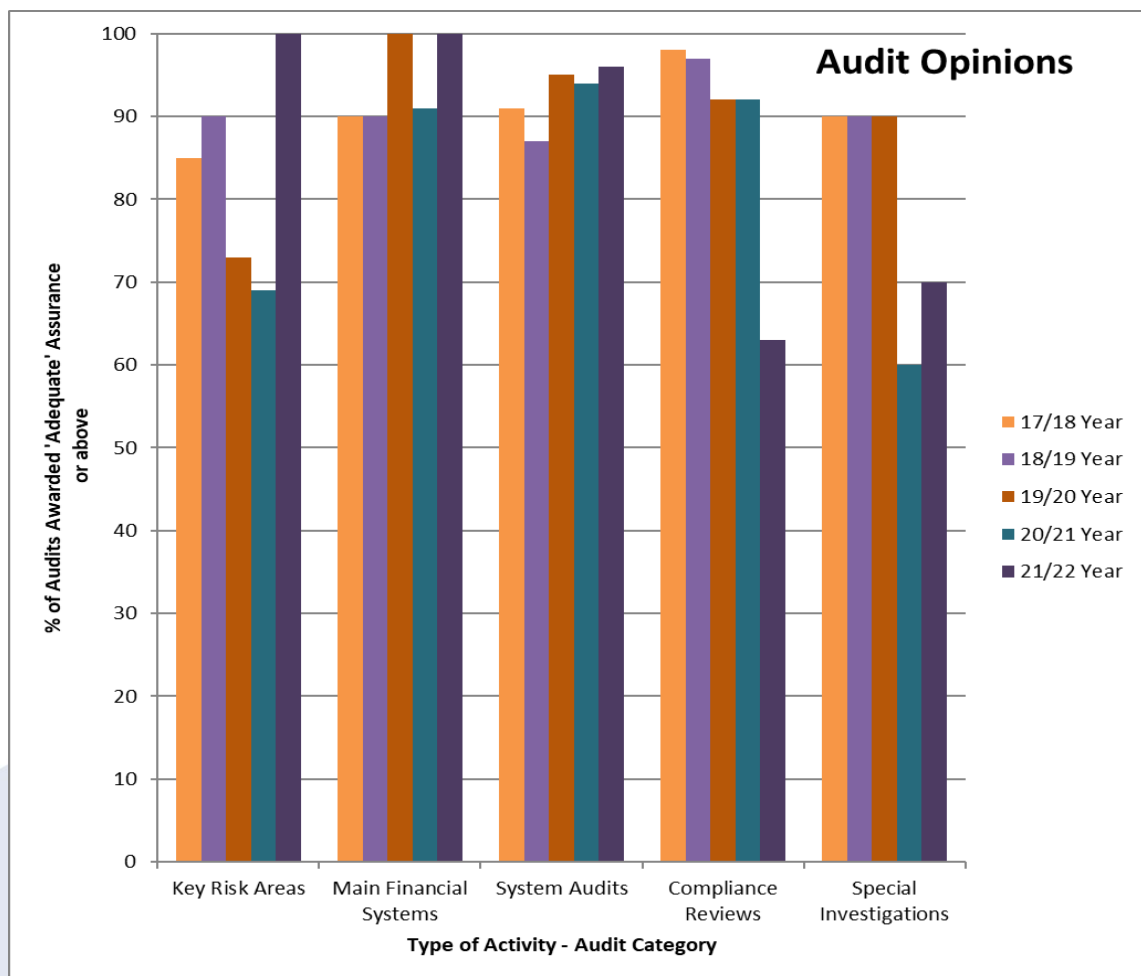
Overall Opinion Level	No of categories achieving the 90% benchmark
Substantial Assurance	5 out of the 5 categories
Adequate Assurance	3 or 4 out of the 5 categories
Limited Assurance	2 and below out of the 5 categories

Implications

35. The following table details the calculation of the 2021/22 overall assessment:

Audit Category	% awarded an opinion of at least "adequate"	Pass/Fail
Key Risk Areas (<i>paragraphs 9 to 13</i>)	100%	Pass
Main Financial Systems (<i>paragraphs 14 & 15</i>)	100%	Pass
System Audits (<i>paragraphs 16 to 20</i>)	96%	Pass
Compliance Reviews (<i>paragraphs 21 to 26</i>)	63%	Fail
Special Investigations/Fraud & Corruption Related Work (<i>Paragraphs 27 to 32</i>)	70%	Fail
Overall Total		3 out of 5 categories passed

36. The chart below details the audit opinions given to the key audit categories and provides a comparison with those awarded over the last five years, 2017/18 to 2021/22:



37. Based on the above, an **"Adequate Assurance"** opinion has been given on the overall adequacy and effectiveness of the organisation's governance, risk, and control framework, i.e the control environment in 2021/22.
38. This year's audit plan has been dominated firstly by our planned audit activities supporting various Council transformation programmes including the highways transformation programme, the digital transformation programme and associated new IT systems as well as the new service delivery model for the household waste recycling centres and changes to the Entrust contract. Our work in these areas focussed on ensuring that sufficient controls including fraud controls are considered and built into new and revised business processes at the right time to support a robust control environment going forward. Our work in 2022/23 will turn our attention to the new arrangements operating within Children's services following their transformation programme and also the social care reforms being introduced within the health and care arena. Secondly, during 2021/22, Internal Audit has continued to support the Council's on-going COVID 19 response predominantly focusing on COVID 19 grant verification exercises and post assurance checks to provide assurance that funding had been accurately accounted for and had been used appropriately. No significant concerns were noted. This work in these areas will continue in 2022/23.
39. Emphasis on strong financial management continued in 2021/22 with a full audit programme of main financial systems conducted and our audit work in-year did not highlight any concerns with all audits awarded a positive assurance opinion with no high level recommendations made. Whilst the level of debt outstanding continued to increase during the 2021/22 financial year, the latest audit review of the Council's debt recovery arrangements identified that significant improvements have been made in the Council's debt recovery processes which has been due, in part to, increasing capacity within the service, a review and documentation of key processes and a focus on improved management reporting.
40. However, the 2021/22 Schools' compliance programme has continued to identify areas of non-compliance and lapses in internal controls with limited assurance audit opinions being awarded for fourteen school establishments representing a significant increase from previous years. Also, control weaknesses relating to payroll processes operating at schools have continued to be identified during 2021/22. As a result of these audit outcomes, in-year we

commenced a continuous controls monitoring (CCM) programme specific to schools to give greater assurance over transactions and where compliance visits highlighted concerns, further investigations were instigated. It is our intention to continue to raise awareness of best practice and counter fraud measures with more regular communications to schools throughout 2022/23. Our school visits will also continue to be supplemented by a programme of CCM that will provide assurance over a greater volume of transactions across all Staffordshire Schools in 2022/23, the findings of which will feature in our communications with schools to reinforce lessons learnt throughout the year.

41. Finally, despite the increase in the value of financial losses (fraud/error) identified in 2021/22 when compared to previous years, the number of limited assurance opinions awarded across the planned system reviews has reduced considerably from eleven in 2020/21 to four in 2021/22 with no limited assurance opinions being awarded in either the top risk or the key financial systems categories of work. Notably, the financial losses value reported in our annual outturn report predominantly relates to our own initiated proactive exercises using Council data effectively to detect anomalies for further investigation (anomalies in 2021/22 were considered error rather than fraud). We will continue to use data analytical tools to enhance the assurance and insights provided to senior management across all business operations during 2022/23.

Performance Measures

42. Key performance indicators (KPI) for the Internal Audit Service are detailed below. The Service has met its key performance target of more than 90% of reports being issued to draft report stage for both systems and compliance audits during 2021/22. The Service continues to meet the KPI targets for the quality questionnaire feedback.

Description	Target %	2018/19 %	2019/20 %	2020/21 %	2021/22 %
Reports issued to draft report stage:					
➤ Systems Audits	90	96	92	97	93
➤ Compliance Audits	90	92	90	93	100
Average score for Quality Questionnaires from clients is equal to or exceeds the 'good' standard:	90	100	100	100	100
➤ System Audits	90	100	100	100	100
➤ Compliance Audits					

Performance against the UK Public Sector Internal Audit Standards (PSIAS)

43. The UK PSIAS came into force on 1 April 2013 with the aim of promoting further improvement in the professionalism, quality, consistency, and effectiveness of internal audit across the public sector. These have been updated periodically since (last updated April 2017). A Local Government Application Note (LGAN) has also been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide further explanation and practical guidance on how to apply the standards. The LGAN is also updated periodically (last updated March 2019).
44. The Internal Audit Service works to an Audit Charter approved regularly by the Audit & Standards Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way in which it interfaces with the Council. A detailed paper outlining how the Service meets the specific requirements of PSIAS & LGAN was presented to the Committee in June 2014 and since this date, internal self-assessments have been undertaken. In January 2018, the Service procured its inaugural external quality assessment (which is required to be conducted once every five years) by CIPFA and the highest category level was awarded regarding compliance with the PSIAS and LGAN. One recommendation was made together with three suggestions for improvement and the full assessment was reported to the Audit and Standards Committee in March 2018. As part of the 2018/19 Outturn Report, these improvements were reported as implemented and have continued to operate since this date.
45. As part of our Internal Audit Quality Assurance and Improvement Framework (QAIP), as well as the *external quality assessment* (conducted every five years); internal assessments are also carried out, as mentioned above. These internal assessments take the following two forms:
 - *On-going monitoring of the performance of the internal audit activity* - This is an integral part of the day to day supervision, review, and measurement of the internal audit activity. On-going monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the Mission of Internal Audit, Definition of Internal Auditing, Core Principles and the Code of Ethics; and

- *Periodic self-assessment* - On an annual basis, the Chief Internal Auditor will update the Public Sector Internal Audit Standards (PSIAS)/LGAN self-assessment checklist and review evidence to demonstrate conformance with the standards. This self-assessment also incorporates conformance with the Mission of Internal Audit, Definition of Internal Auditing, Core Principles, and the Code of Ethics.

46. The results of this year's updated self-assessment exercise against the current standards and LGAN are summarised below. 94% of the standards are deemed to be fully in place.

Standard			
In Place	Partially In Place	Not In Place	Not Applicable
127 (94%)	3 (2%)	4 (3%)	1 (1%)

47. For those areas of partial/non-compliance a detailed action plan has been produced, although none of these are considered to significantly affect the effectiveness of Internal Audit.
48. Four areas of non-conformance (not in place) were highlighted as part of the self-assessment which will not involve any further action being taken namely:
- The Chief Internal Auditor reports to the Head of Internal Audit & Adults and Children's Financial Services. Section 151 matters are reported in all instances to the County Treasurer who reports to Cabinet & SLT for all Section 151 matters. Alternative reporting arrangements are detailed within the Internal Audit Charter, should the need arise.
 - The Audit & Standards Committee does not approve the Internal Audit budget. This is the responsibility of the County Treasurer via Full Council.
 - The Audit & Standards Committee does not approve decisions relating to the appointment and removal of the Chief Internal Auditor, this responsibility lies with the Head of Internal Audit & Adults & Children's Financial Services in-conjunction with the County Treasurer. The County Treasurer would also liaise with the Director of Corporate Services in respect a matter of this nature.
 - The Audit & Standards Committee does not approve the remuneration of the Chief Internal Auditor. The Pay of the Chief Internal Auditor is in accordance with the Council's Pay structure, Grading and JE processes which are owned corporately.

The one standard which is categorised as “not applicable” related to an external internal audit service provider who acts as the internal audit activity.

The full action plan is attached as **Appendix 3** to this report.

49. The work undertaken by the Internal Audit Service during 2021/22 and reported within the Annual Outturn Report has been performed in accordance with PSIAS. In relation to this, there are no impairments or restrictions in scope or impairments in independence or objectivity during the year which prohibit the Chief Internal Auditor or the Service from delivering the annual Head of Internal Audit opinion for 2021/22.

Equalities Implications

50. There are no direct implications arising from this report.

Legal Implications

51. Whilst there are no direct legal implications arising from this report, the Accounts and Audit (England) Regulations 2015 require specifically that a relevant body must ‘undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance’. This report supports compliance with both the Regulations and the PSIAS.

Resource and Value for Money Implications

52. The net budget of the Internal Audit Section in 2021/22 was £979,020 of which £199,620 relates to payments to external providers.

Risk Implications

53. Internal Audit objectively examines, evaluates, and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient, and effective use of resources. Internal Audit will continue to align its work with the latest Corporate Strategic Risk Register.

Climate Change Implications

54. There are no direct implications arising from this report

List of Background Documents/Appendices

- Audit Management System/Pentana Audit Management
- Annual Audit Plan & Strategy 2021/22
- 2021/22 Audit Charter
- Public Sector Internal Audit Standards – revised with effect from 1st April 2017.
- Local Government Application Note – with effect from 1st March 2019
- Accounts and Audit (England) Regulations 2015.
- CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2019 Edition).
- 2021/22 Progress Reports to Audit & Standards Committee & various Internal Audit Reports

Appendix 1 – Recommendation Risk Ratings & Internal Audit Assurance Ratings.

Appendix 2 – Appendix 2 – Fraud & Corruption Outturn Report 2021/22 (Confidential agenda item).

Appendix 3 – PSIAS Action Plan for 2022/23.

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