Appendix 1

Tamworth
Borough Council
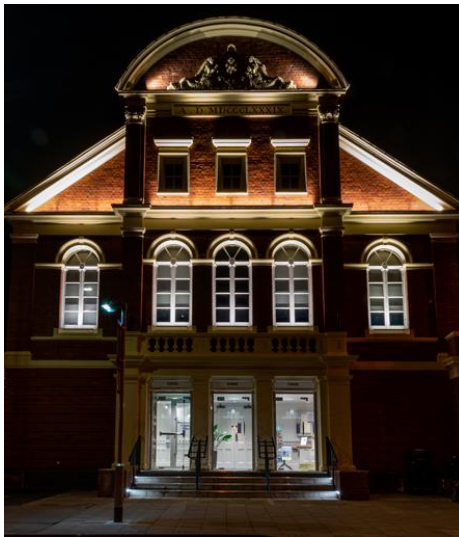
Internal Audit Annual Report (including Quarter 4 2019/20 &
Quarter 1 2020/21 Progress Results)
July 2020

Contents

In the event of any questions arising from this report please contact Rebecca Neill, Head of Audit & Governance and Monitoring Officer
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01 INTRODUCTION

BACKGROUND

This report comprises Internal Audit's Annual Report, including results for the quarter 4 to 31 March 2020 (as well as an update on progress during quarter 1 to 30 June 2020).

SCOPE AND PURPOSE OF INTERNAL AUDIT

The Accounts and Audit Regulations 2015 require councils to undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.

This opinion forms part of the framework of assurances that is received by the council and should be used to help inform the annual governance statement. Internal audit also has an independent and objective consultancy role to help managers improve risk management, governance and control.

Internal Audit's professional responsibilities as auditors are set out within Public Sector Internal Audit Standards (PSIAS) produced by the Internal Audit Standards Advisory Board.

ACKNOWLEDGEMENTS

Internal audit is grateful to the directors, heads of service, service managers and other staff throughout the council for their help during the period.

02 INTERNAL AUDIT WORK UNDERTAKEN

The internal audit plan for 2019/20 was considered and approved by the Audit & Governance Committee at its meeting in March 2019. The plan was for a total of 29 audits.

Six audits (community leisure, project management, outdoor events, self-service technology, corporate policy and organisational transformation) were amended from the plan during the year. These were either at management's request due to imminent system changes or were cancelled at the year-end as not being a priority due to the operational disruption arising from Covid-19.

The audit findings of each review, together with recommendations for action and the management response are set out in our detailed reports. A summary of the reports we have issued during the year is included at **Appendix 01**. Progress against the plan is reported in section 5.

An update on quarter 1 to 30 June 2020 is given at section 05.

03 ANNUAL OPINION

SCOPE OF THE OPINION

In giving the annual audit opinion 2019/20, it should be noted that assurance can never be absolute. The most that the internal audit service can provide the council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

- The outcomes of all audit activity undertaken during the period.
- The effects of any material changes in the organisation's objectives or activities.
- Whether or not any limitations have been placed on the scope of internal audit.
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation.
- What proportion of the organisation's internal audit needs have been covered to date.

Annual Internal Audit Opinion

On the basis of audit work completed, the Head of Audit & Governance's opinion on the council's framework of governance, risk management and internal control is reasonable in its overall design and effectiveness. Certain weaknesses and exceptions were highlighted by audit work. These matters have been discussed with management, to whom recommendations have been made. All of these have been, or are in the process of being addressed.

Specific Issues

No specific issues have been highlighted through the work undertaken by internal audit during the year.

Fraud & Irregularity

No matters of fraud or irregularity have been reported during the year 2019/20. A Fraud awareness day was held for all staff, promoting the recently refreshed counter fraud and whistleblowing policies in November 2019.

Consultancy & Advice

The audit team may be requested by managers to undertake consultancy and advice on governance, risk management and internal control matters from time to time. The following pieces of work were undertaken during the year:

➢ Review of housing rents year end close down processes.

➢ Assistance on CCTV corporate project board.
➢ Training delivered (professional boundaries) to sheltered housing scheme managers.

04 Follow Up

At the last Audit & Governance Committee, members approved a new approach to audit follow up (all high priority actions and those arising from no and limited overall assurance reports will be followed up by audit, managers confirmation applies to the rest). Implementation of this system has been delayed to allow functions to concentrate on business critical service delivery due to Covid-19, but will be re-commenced in Quarter two, this includes management 'call in' on follow up audits receiving a limited or no assurance opinion.

05 Quarter 1 2020/21

Much of quarter one work has been centred on completing annual reports, compliance statements (including the Annual Governance Statement) and supporting counter fraud checks on Coronavirus business grants. Planned audit work had been temporarily suspended to allow functions to concentrate on business critical service delivery due to Covid-19, but will be re-commenced in Quarter two.

Compliance with professional standards

We employ a risk-based approach in planning and conducting our audit assignments. Internal audit work has been performed in accordance with PSIAS.

Conflicts of interest

There have been no instances during the year which have impacted on internal audit's independence that have led to any declarations of interest.

Performance of Internal Audit

Internal audit quality assurance

To ensure the quality of the work internal audit performs, there is a programme of quality measures which includes:
- Supervision of staff conducting audit work.
- Review of files of working papers and reports by managers.
- Regular meetings of our networking groups, which issue technical and sector updates.

Performance Measures

Internal audit's main performance measures and the quarter's outturn are as follows:

To achieve at least 90% of the plan by the end of the financial year – 96% (22 audits completed out of 23, 1 delayed completion due to contractor furlough).

Draft reports issued within 15 working days of completion of fieldwork – 100%.

Percentage of recommendations accepted by management 96% (103 out of 107).

Appendix 01: Summary of Internal Audit Work Undertaken

Audit	Level of Assurance	Executive Summary*	Recommendations		
			High	Medium	Low
Corporate Business Continuity	Limited	It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	15	5	0
Disabled Facilities Grant Assurance Audit	N/A	Certification Opinion.	1	0	0
Housing Repairs Quarter 1	Reasonable	Audit are pleased to be able to report reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	1	0	0
Housing Repairs Quarter 2	Reasonable	Audit are pleased to be able to report reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	0	0
Pension Contribution Assurance	N/A	Certification Opinion.	0	0	0
Property Contracts Quarter 1	Reasonable	Audit are pleased to be able to report reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	2	0
Property Contracts Quarter 2	Limited	It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	3	8	0
Municipal Charities	Transactional	Complete.	0	0	0
Council Tax	Reasonable	The purpose of the audit was to provide assurances that the correct charges are levied for council tax due to the Council, and that this is accounted for and collected in a timely manner. Overall there are reasonable controls in place. However, there are some areas where improvements can be made notably: • Addressing delays in processing amendments to properties (from a sample of 12 properties that were either new, deleted or amended, there were delays in 3 instances out of 12 sampled resulted in the changes being backdated).	0	5	1

Audit	Level of Assurance	Executive Summary*	Recommendations		
			High	Medium	Low
		• Ensuring that up to date evidence exists for all council tax reductions (2 out of 10 sampled had evidence only to 2018). • That write offs are processed in timely manner (5 out of 10 sampled related to debts between 2012 and 2016). • That the error rate in customer services be addressed. Sample checks carried out internally from April 2019 to February 2020 (approximately) showed that council tax staff have an average overall error rate of 7.4%, compared to the customer services team's 17.5%.			
NNDR	Reasonable	The purpose of the audit was to provide assurances that the correct charges are levied for NNDR due to the Council, and that this is accounted for and collected in a timely manner. Overall there are reasonable controls in place. However, there are some areas where improvements can be made notably: • From a sample of 15 properties that were either new, deleted or amended, there were delays in 7 instances resulting in the changes being backdated. • From a sample of 10 reductions, 9 were satisfactory, but one account had not been reviewed since 2017. Good practice identified as part of the audit included procedures being generally well documented; staff adequately trained and progress made in reducing arrears (arrears relating to 2018/19 and earlier reduced from £665k as at 31/3/19 to £486.5k as at 31/12/19).	0	3	2
Payroll	Reasonable	The purpose of the audit was to provide assurances that there are adequate controls over the management of payroll and the processing of payments to ensure that only bona-fide payments are made; including new starters, amendments, deductions, leavers, exceptional payments and expenses. Processes regarding key payroll processing and payments are generally very well controlled. There are, however, some areas where improvements can be made to strengthen existing processes, notably: • Password security over access to Health Shield (employee benefits) needs to be reviewed. • Ensuring that there is evidence of managers' annual check of employees' driving licence, MOT and insurance details. • That receipts are in place for all mileage and expenses claimed. • A systems based solution is identified for the manual system currently in place for processing variable hours.	0	2	3
Bank Reconciliation & Cash	Substantial	The purpose of the audit was to provide assurances that the Council has suitable policies and procedures in place to effectively manage bank, cash and income.	0	0	2

Audit	Level of Assurance	Executive Summary*	Recommendations		
			High	Medium	Low
Income Management		The Council has generally sound controls in place to effectively manage bank, cash and income: • Substantive testing confirmed that the income process, from initial contact from all sources through to the final ledger is operating effectively. • Income and bank reconciliations are carried out regularly. • All daily and quarterly reconciliations sample tested had been completed. Some minor improvements were identified, in terms of updating procedure notes and ensuring that where monthly reconciliations are missed, the reason for this is recorded on the appropriate schedule.			
Housing Rents	Reasonable	The purpose of the audit was to provide assurances that the Council suitably manages its rental income collection process, adequate controls are in place to ensure that debtors are managed effectively, and monies are collected in a timely manner. We have given a 'reasonable' assurance rating as overall there are controls in place to ensure rent accounts are established and rent is applied to properties correctly. However, there are areas where controls need to be strengthened, most notably, with the increase in arrears, the drop in direct debit take up, and weaknesses around affordability checks. Left unaddressed, this may mean a negative direction of travel, and increases the risk of the Council not recovering rent efficiently and effectively. Areas for improvement noted were as follows: • Ensuring consistency in practice for obtaining evidence of proof of NI and income. • Reviewing vetting procedures. - prospective tenants are not required to provide details of regular expenditure and outgoings, only details of income is requested. • Ensuring direct debit as means of paying rents is maximised. While tenants are encouraged to take up direct debit from the start of their tenancy and take up is monitored, only 20% of property tenancies and 59% of garage tenancies are paid by Direct Debit, giving an average of 26%. This has dropped from 38% reported in the 2017. • That the total tenant arrears figure continue to be monitored. Total arrears have increased from £512,472 to £712,867 between 1 April 2019 and 10 February 2020. • That performance in terms of Former Tenant Arrears continues to be managed.	0	5	2

Audit	Level of Assurance	Executive Summary*	Recommendations		
			High	Medium	Low
Housing Repairs Q3 Housing Repairs Q4	Reasonable	The purpose of the audit was to provide assurances that the Council suitably manages its housing repairs (responsive repairs system and void repairs system) and process, and that adequate controls are in place to ensure that repairs are managed effectively, and in a timely manner. The audit found that there are substantial controls in place regarding responsive repairs. Controls over voids are reasonable, but some improvements could be made to strengthen existing controls, particularly in relation to the re-let standards and timescales involved in re-letting properties.	0	0	3
Property Contracts Q3 Property Contracts Q4	Limited	The purpose of the audit was to provide assurances that the Council suitably manages it property contracts with respect of bathroom and kitchen upgrades and adequate controls are in place to ensure that property contracts are managed effectively, and in a timely manner. The audit identified that controls around pre-survey and works orders, work in progress checks, systems for checking variation orders, post inspection quality checks and update of the Orchard system required strengthening. The recommendations made within the audit report are due to be implemented alongside alongside the introduction of new property contracts.	3	5	0
Community Safety	Reasonable	The purpose of the audit was to provide assurances that appropriate governance and internal control arrangements are in place to enable the Council to successfully deliver its community safety objectives as part of the Tamworth Community Safety Partnership (TCSP). While we are pleased to report the overall audit opinion as reasonable, there are areas where controls could be enhanced, most notably, in the absence of data in relation to performance targets and monitoring of outcomes. Performance data is critical in making effective management decisions, to drive priorities, and respond to changing trends. This is a fundamental area that management should address to enhance the controls present.	1	1	2
Customer Services	Reasonable	The purpose of the audit was to provide assurances that the Council has suitable policies and procedures in place to effectively deliver services to its customers. The review considered the use of Service Level Agreements (SLAs) between Customer Services and service areas, how the effectiveness of different channels by which customers can contact the Council is monitored, performance monitoring of customer service as a whole, the use of the Customer Relationship Management system and data protection. Overall controls in place were reasonable with some improvements identified in: • Ensuring clear and specific SLAs are in place setting out what services can expect from customer services.	0	6	1

Audit	Level of Assurance	Executive Summary*	Recommendations		
			High	Medium	Low
		• Improving arrangements for collecting internal and external customer satisfaction feedback and ensuring that this data is used to drive service improvement. • Continuing to explore ways in which the CRM system can link to other systems, prioritising the services areas that will have the most beneficial impact on the customer.			
I Trent Application	Work In Progress	*Audit part completed – IT audit contractor furloughed themselves part way through the audit – to be completed in September 2020*			
Cyber Resilience	Limited	At this time limited assurance can be given to the Council's approach to cyber security operations and management. Whilst we note an external independent penetration review was undertaken in April 2019, the previous "test" was carried out in 2016. External testing should be completed on an annual basis and is a requirement of the Public Services Network (PSN) accreditation process. We were advised that the reasons for non-completion were linked to work required to address issues identified from 2016 and these had not been addressed. Whilst we note this the absence of annual testing could have resulted in other, undetected issues, putting IT services and systems at threat from external sources. This is a significant issue. As a result of the failure to complete external testing, to support the PSN accreditation process, the council did not have the accreditation in place during that period. It is understood the PSN accreditation is now in place. Of priority, the following was also noted for improvement including ensuring: • Relevant policies have been drawn up and approved by management. • 'Other' network connected devices are managed accordingly. • Security threats including any new threats are continually monitored and managed.	5	8	0
Data Protection	Limited	At this time some limited assurance can be given that the Council's compliance process for the Act is in place. Whilst we note work was completed prior to the May 2018 deadline to undertake key tasks, other work has yet to be completed and in our opinion a corporate structure to ensure on-going compliance is absent. Of a priority, the following was noted as areas for improvement: • Ensuring there are appropriate corporate policies / strategies for Data Protection in place. • A governance structure has been agreed for managing and monitoring Data Protection compliance. • Annual reviews of Information Audits are completed and evidenced accordingly.	5	7	0

*the system for replacing standard wording in executive summaries with a better tailored summary to the audit was replaced mid-year. Audits carried out before this system was introduced will still reflect the standard executive summary.

Audit (Implementation Review (IR) and Further Implementation (FIR) Reviews)	Level of Assurance	Executive Summary	Recommendations		
			High	Medium	Low
CCTV Further Implementation Review (FIR)	Reasonable	The revised audit opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	1	3	0
Committee Decisions & Reporting Implementation Review (IR)	Reasonable	The revised audit opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	6	1	0
Efin Application IR	Substantial	The revised audit opinion is that substantial assurance can be given that the system, process or activity should achieve its objectives safely and effectively and that controls are in place and operating satisfactorily.	0	0	0
Housing Regeneration & Affordable Housing IR	No	The revised audit opinion is that no assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are not in place or are failing.	1	0	0
Housing Services FIR	Reasonable	The revised audit opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	2	0
IT Governance IR	No	The revised audit opinion is that no assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are not in place or are failing.	6	2	0
Licences FIR	Reasonable	The revised audit opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	1	0	0
Network Controls FIR	Reasonable	The revised audit opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	4	0

Audit (Implementation Review (IR) and Further Implementation (FIR) Reviews)	Level of Assurance	Executive Summary	Recommendations		
			High	Medium	Low
Pentana IR Review	Reasonable	The revised audit opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	1	6	0
Sheltered Housing IR	Reasonable	The revised audit opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	1	1	0
Street Scene IR	Limited	The revised audit opinion is that limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	3	5	0
Tourism & Town Centre IR	Reasonable	The revised audit opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	11	0
Tourism & Town Centre FIR	Reasonable	The revised audit opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	5	0
Website FIR	Reasonable	The revised audit opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	0	1	0

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Appendix 02: Assurance and Recommendation Classifications

Overall Assurance Opinion	Definition
Substantial	There is a sound system of internal control designed to achieve the organisation's objectives. The control processes tested are being consistently applied.
Reasonable	While there is a basically sound system of internal control, there are some weaknesses which may put the organisation's objectives in this area at risk. There is a low level of non-compliance with some of the control processes applied.
Limited	Weaknesses in the system of internal controls are such as to put the organisation's objectives in this area at risk. There is a moderate level of non-compliance with some of the control processes applied.
No	Significant weakness in the design and application of controls mean that no assurance can be given that the organisation will meet its objectives in this area.

Recommendation Priority	Definition
High	High priority recommendation representing a fundamental control weakness which exposes the organisation to a high degree of unnecessary risk.
Medium	Medium priority recommendation representing a significant control weakness which exposes the organisation to a moderate degree of unnecessary risk.
Low (Housekeeping)	Low priority (housekeeping) recommendation highlighted opportunities to implement a good or better practice, to add value, improve efficiency of further reduce the organisation's exposure to risk.