

Internal Audit Progress Report (Quarter 3)  
December 2020



## Contents

- 01 Introduction
- 02 Internal Audit Work Undertaken
- 03 Opinion
- 04 Follow Up
- 05 Performance of Internal Audit

### Appendices

- 01 Summary of Internal Audit Work Undertaken
- 02 Assurance and Recommendation Classifications

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The matters raised in this report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report was produced solely for the use and benefit of Tamworth Borough Council. The Council accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification.

## 01 INTRODUCTION

### BACKGROUND

This report summarises internal audit activity and performance for the period to 31 December 2020.

### SCOPE AND PURPOSE OF INTERNAL AUDIT

The Accounts and Audit Regulations 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 progress report and opinion forms part of the framework of assurances that is received by the Council and is 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 2020/21 was approved by the Audit & Governance Committee at its meeting in July 2020. The plan was for a total of 16 audits. Two audits (castle and assembly) have been postponed to the 2021/22 plan this quarter, due to the Pandemic.

Much of quarter one and two work was centred on completing annual reports, compliance statements (including the Annual

Governance Statement) and supporting counter fraud checks on Coronavirus business grants. Planned audit work was temporarily suspended to allow functions to concentrate on business critical service delivery due to Covid-19, and while audits have recommenced, as we have entered subsequent waves and national lockdowns, this of course has had an impact in terms of some service areas' ability to respond to audits, due to their changing priorities as a result of the pandemic. Performance against internal audit's KPI's is at section 05 but clearly the above has had an effect.

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 this year is included at **Appendix 01**.

## 03 OPINION

### SCOPE OF THE OPINION

In giving an opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to 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.

In arriving at an opinion, the following matters have been taken into account:

- 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.

**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 substantial 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 period.

**Fraud & Irregularity**

No matters of fraud or irregularity have been reported during the period.

**Consultancy & Advice**

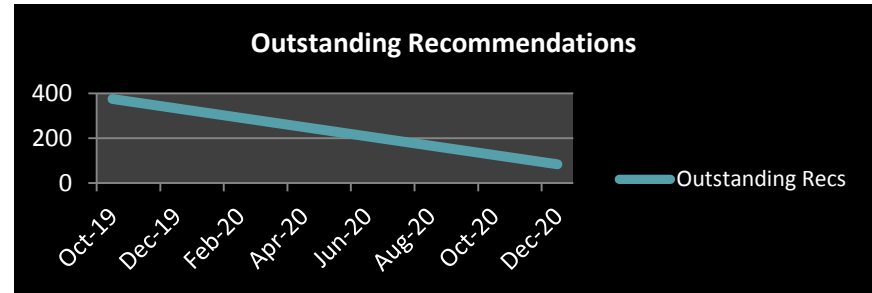
The audit team may be requested by managers to undertake consultancy and advice on governance, risk management and

internal control matters from time to time. No specific pieces of work were commissioned during the period.

**04 Follow Up**

The Committee approved an approach to audit follow up earlier this year (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 the new system was initially delayed to allow functions to concentrate on business critical service delivery due to Covid-19, but was re-commenced in Quarter two.

Most of the follow up work has been directed at closing off outstanding / legacy actions from previous years’ audits. The total outstanding actions at the end of quarter three are 84 (30 high, 40 medium, 14 low).



Due to the number of closed high priority recommendations, the backlog has been 10% random sample tested. All (7) recommendations sampled were found to be correctly closed out. Going forward, all highs will now be verified.

Of those audits receiving a no or limited assurance opinion which require follow up, a summary of progress to date is given at Appendix 01.

## 05 PERFORMANCE OF INTERNAL AUDIT

### 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 – 21% completed (3 out of 14) and 43% (6 out of 14) in progress. See section 2 for commentary.





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





Percentage of recommendations accepted by management - 100%.

**Appendix 01: Summary of Internal Audit Work Undertaken**

| Assurance              | Audit             | Scope   | Planned Quarter | Assurance Summary   | Assurance Opinion   |
|------------------------|-------------------|---|-----------------|---|---|
| Core Financial Systems | Main accounting   | Risk based review covering the adequacy and effectiveness of controls around main accounting, including access control, journals, virements, control account reconciliations etc. All core financial system audits will include a review of controls which may have been relaxed / adapted as a result of the requirement for remote working as a result of Covid-19. | Q4              | In progress.  |   |
|                        | Budgetary Control | Risk based review covering the adequacy and effectiveness of controls around budget planning; monitoring and control (including variances, profiling), reporting – and testing a sample of departments.   | Q3              | <p>The budgetary control system is designed with controls in place to mitigate the major risks. There is clear budget planning process with a timetable of tasks, delegation and timescales. Input to the budget setting process 2020/21 was provided by budget holders, Finance, Corporate Management Team (CMT), Members and external stakeholders. The budget was reviewed at Cabinet and Joint Scrutiny (budgets) and culminated in the approval of the budget by Council in February 2020, a requirement of the Council's Constitution.</p> <p>Controls were found to be operating effectively. There was clear evidence of budget monitoring and variances highlighted at budget holder level each month and through performance monitoring reported quarterly to CMT and Cabinet.</p> <p>As part of the audit, feedback was requested from a sample of budget holders, who confirmed their input to the budget setting and monitoring process with sufficient support from finance to enable them to monitor their budgets effectively.</p> <p>Budget holders were also aware of their responsibilities and accountabilities for their budget. Budget holders did not raise any comments or suggestions for improvement of the budget setting/ monitoring process.</p> |  <p>Substantial Assurance</p> <p>Number of Actions<br/>H-0<br/>M-0<br/>L-2</p> |

| Assurance | Audit               | Scope  | Planned Quarter | Assurance Summary  | Assurance Opinion   |
|-----------|---------------------|--|-----------------|--|---|
|           |                     |  |                 | <p>Changes to the budget were found to be identified directly from budget holders, accountancy or through performance monitoring. Virements were also found to be processed in accordance with delegations specified in Financial Guidance.</p> <p>Some minor areas for improvement was noted during the audit, namely ensuring a business case is evident for all approved policy changes and that all new budget holders receive appropriate financial training to enable them to effectively discharge their budget responsibilities. Implementation of the recommendations in the action plan will enhance arrangements</p>  |   |
|           | Treasury Management | Risk based review of treasury management including strategy, investments and loans | Q3              | <p>The Treasury Management system is designed well with adequate controls in place to mitigate against risks. Good practice was noted in that an approved Treasury Management Strategy Statement, Policy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy are in place which meet the requirements of the CIPFA Code of Practice on Treasury Management and the Prudential Code. Investment performance was found to be routinely monitored and regularly reported to CMT, Cabinet, Council and Audit Committee and of a sample of 10 investments / 10 repayments examined as part of the audit, all were found to be compliant with the strategy and practices, with adequate segregation of duties and accurate records in place.</p> <p>Two minor areas for improvement were noted. The first in relation to KPI's - two (max invested for more than 364 days and average external investment interest rate achieved) were recorded on Pentana as not currently being met, however, the system had not been updated since May 2020. It is recommended that Pentana is updated and any corrective action taken as necessary. The second is in relation to maintaining evidencing of approval of investment decisions. Before the team moved to remote working, investment decisions were noted on a document prepared by the Accountancy Assistant and</p> |  <p>Substantial Assurance</p> <p>H-0<br/>M-0<br/>L-2</p> |

| Assurance                     | Audit                          | Scope   | Planned Quarter | Assurance Summary  | Assurance Opinion   |
|-------------------------------|--------------------------------|---|-----------------|--|---|
|                               |                                |   |                 | physically counter signed by two of the authorised approvers. This document is now completed electronically without signature. While the risk of unauthorised transactions is minimal, as payments on the online banking system have to be appropriately approved, supporting evidence of the decisions made would complete the audit trail. It is suggested that this is via retained emails or notes are made and electronically approved of the monthly meetings where upcoming investments and the redemption of funds is planned.   |   |
|                               | Debtors                        | Standard risk based review of debtors, including invoice requisitioning, invoicing, debt recovery and monitoring, aged debtor analysis, bad and doubtful debts. | Q3              | In progress.   |   |
|                               | Housing & Council Tax Benefits | Standard CIPFA risk based review of housing and council tax benefits.   | Q3              | <p>The benefits system is designed with controls in place to mitigate the major risks. Claims are verified and processed promptly and accurately. There are business continuity plans in place and IT systems are supported and up to date. Checks are in place to identify errors prior to transmitting payment runs, and management checks are completed on a sample of claims to confirm accuracy of assessment. A suite of performance indicators is in place to monitor the service. Suspected CTR fraud is investigated by the corporate fraud officer. All of these controls were found to be operating effectively to mitigate against key risks.</p> <p>Some control weaknesses were found largely due to the service addressing other priorities arising as a result of the pandemic. These were delays in the completion of some reconciliations, and no documented programme was in place for checks of claims, although all high risk claims are prioritised and checked as a matter of course. Implementation of the recommendations in the action plan will enhance arrangements.</p> | <br>Substantial<br>H-0<br>M-1<br>L-1 |
| Strategic & Operational Risks | Covid-19 Risks                 | 'Flash' audits of dynamic risks arising from the Council's Covid-19 response. To include continuity and recovery arrangements, business grants, new             | Q2-Q4           | <p><u>Staff Wellbeing</u><br/>           Control measures to mitigate against the risk of staff wellbeing being adversely impacted by the Covid-19 crisis were found to be adequate and effective.</p>   | <br>Substantial                    |



| Assurance | Audit | Scope   | Planned Quarter | Assurance Summary   | Assurance Opinion |
|-----------|-------|---|-----------------|---|-------------------|
|           |       | funding, staff well being, governance, financial, productivity. This audit will compliment other strategic and operational risk and ICT audits on the plan which will be looked at with a 'Covid-19 risk lens'. |                 | <p>A number of good practice areas were noted:</p> <ul style="list-style-type: none"> <li>• A human resources plan in response to staffing matters associated with the Covid-19 outbreak was quickly established (consulted on with unions and approved by CMT), including counselling services available to provide staff with support and advice.</li> <li>• Regular weekly all staff communications have been maintained throughout the pandemic setting out organisational updates as well as providing clarity on wider (frequently changing) government guidance. Wellbeing has been regularly cited, including a number of links for mental health. Communications have been factual, delivered with the right balance of humour, to raise staff morale and have been generally very well received.</li> <li>• Staff wellbeing engagement has been undertaken via a staff survey in May 2020 (results shared in June 2020). Of the 212 staff members participating, 96% of those felt their managers were understanding about their health and wellbeing and the biggest negative impact was regarding staff missing colleagues and social interactions. Managers reporting to Assistant Directors Group (formerly known as Heads of Service Group) are working on the response to the survey in a 'you said, we did'.</li> <li>• Informal staff engagement has been strong e.g. the use of 'Teams' as a tool for virtual coffee breaks and the recent Macmillan Coffee Morning hosted by Assistant Directors.</li> <li>• Finally, despite the ongoing situation with COVID-19, sickness levels have not suffered a significant impact, but remained constant.</li> </ul> <p>As the pandemic enters a 'second wave', coupled with additional pressures on staff wellbeing arising from the winter months and prolonged remote working, the following areas are suggested as forward focus to maintain staff wellbeing:</p> <ul style="list-style-type: none"> <li>• Ensuring that the work streams to address the results of the staff survey are completed and additional snap surveys are undertaken to</li> </ul> |                   |

| Assurance | Audit                    | Scope   | Planned Quarter | Assurance Summary  | Assurance Opinion |
|-----------|--------------------------|---|-----------------|--|-------------------|
|           |                          |   |                 | <p>measure the success of this work and to continue to 'listen' to staff.</p> <ul style="list-style-type: none"> <li>• Creation of a wellbeing page on Infozone where links to downloadable materials, specialist wellbeing pages and FAQ's, can be accessed e.g. providing support on mental health <a href="https://www.mind.org.uk/workplace/">https://www.mind.org.uk/workplace/</a></li> <li>• Continue to promote a culture that values individuals and teams (e.g. the 'saying thank you to ...' in weekly comms, promote informal virtual team engagement over the forthcoming holiday period).</li> <li>• Encouraging staff to focus on their physical health (i.e. via reinforcing government safety measures and other measures e.g. promoting nutrition, fitness and educational content etc.)</li> <li>• Continually keep abreast of, and implement suitable innovative developments to promote staff wellbeing.</li> </ul> |                   |
|           | Risk Management          | Review of the adequacy and effectiveness of the Council's risk management policy and system for managing strategic and operational risks.                         | Q4              |  |                   |
|           | Housing Allocations      | Risk based review of the implementation of the new Housing Allocations Policy and systems for monitoring compliance.  | Q4              | In progress.   |                   |
|           | Reactive Repairs         | Risk based review of the system for reactive repairs.   | Q4              |  |                   |
|           | Planned Maintenance      | Risk based review of the planned maintenance programme.   | Q4              | In progress.   |                   |
|           | Landlord Health & Safety | Compliance review against the Council's landlord health & safety requirements e.g. gas, fire, legionella, asbestos, electrical.                                   | Q3              | In progress.   |                   |
|           | Assembly Rooms           | Risk based review looking at key aspects of the Assembly Room's operations e.g. income, asset management, marketing, stock and inventory management, procurement, | Q4              | Audit postponed to 2021/22 due to the Pandemic.  |                   |

| Assurance                                   | Audit                                     | Scope  | Planned Quarter | Assurance Summary   | Assurance Opinion |
|---|---|--|-----------------|---|-------------------|
|   |   | security and agility of operations on recovery.  |                 |   |                   |
|   | Castle                                    | Risk based review looking at key aspects of the Castle's operations e.g. income, asset management, marketing, stock and inventory management, procurement, security and agility of operations on recovery. | Q4              | Audit postponed to 2021/22 due to the Pandemic.   |                   |
| ICT   | Remote Working                            | High level risk based review of ICT systems and controls mitigating risks from remote working.   | Q2-Q4           | Invitations to Quote for this work have been invited and quotations evaluated. Mobilisation to commence shortly.  |                   |
|   | Network Infrastructure                    | Risk based review of network infrastructure, including access management and security.   |                 |   |                   |
|   | 'Patching' and Change Control             | Risk based review of the Council's systems for patching  |                 |   |                   |
|   | I-Trent Application (previous year audit) | Risk based review of controls governing access and use of the I-trent (payroll) application.   |                 | Audit carried forward from 2019/20 plan. Audit part completed – IT audit contractor furloughed themselves part way through the audit – work is now in the process of being completed.   |                   |
| Governance<br>Fraud &<br>Other<br>Assurance | Pensions                                  | Assurance statements to Staffordshire County Council / accounts preparation.   | Q4              |   |                   |
|   | Disabled Facilities Grant                 |  | Q4              | In progress.  |                   |
|   | Municipal Charities                       |  | Q4              | Complete.   | N/A               |
|   | Counter Fraud                             | Work to support the mitigation of fraud risk, the provision of fraud awareness training, pro-active fraud exercises and reactive investigations.   | Q1-Q4           | Counter fraud checks on Business Grant Relief / Small Business Grant / Hospitality & Leisure Grant / Discretionary Grant Awards claims. Preparation of data sets for the National Fraud Initiative 2020 national exercise. See counter fraud update report. | N/A               |
|   | Annual Governance Statement               | Production of the AGS.   | Q1-Q2           | Complete.   | N/A               |
|   | Annual Audit Opinion                      | Production of the Annual Audit Opinion   | Q1-Q2           | Complete.   | N/A               |
|   | Management and Planning                   | Management, planning and assurance reporting to CMT and Audit & Governance Committee   | Q1-Q4           | Ongoing.  | N/A               |
|   | Ad hoc /                                  | Contingency allocation to be utilised  | Q1-Q4           | Ongoing.  | N/A               |

| Assurance  | Audit                                     | Scope  | Planned Quarter | Assurance Summary  | Assurance Opinion |
|--|---|--|-----------------|--|-------------------|
|  | Contingency / Consultancy                 | upon agreement of the Chief Finance Officer  |                 |  |                   |
| Follow Up of No and Limited Assurance Opinion Audits | Corporate Business Continuity             | Limited Assurance follow up.   | Q4              | Audit in progress.   |                   |
|  | Property Contracts                        | Limited Assurance follow up.   | Q4              |  |                   |
|  | Cyber Resilience (Limited Assurance)      | Limited Assurance follow up– last recommendation implementation date December 2020 so not yet started. | Q4              |  |                   |
|  | Data Protection (Limited Assurance)       | Follow Up – last recommendation implementation date November 2020 so not yet started.                  | Q4              |  |                   |
|  | Housing Regeneration & Affordable Housing | No Assurance (Implementation Review) follow up.  | Q3              | Complete. One high priority recommendation on this audit (that a risk register be put in place). Risks associated with housing regeneration and affordable housing are now included within the corporate risk management process. As a result, a revised opinion has not been issued on this audit, the audit is instead closed. | Closed            |
|  | Street Scene                              | Limited Assurance (Implementation Review) follow up.   | Q4              | Audit in progress.   |                   |

## Appendix 02: Assurance and Recommendation Classifications

| Overall Assurance Opinion | Definition  |
|---------------------------|---|
| <b>Substantial</b>        | There is a sound system of internal control designed to achieve the organisation's objectives. The control processes tested are being consistently applied.   |
| <b>Reasonable</b>         | 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. |
| <b>Limited</b>            | 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.                                |
| <b>No</b>                 | 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   |
|---------------------------|--|
| <b>High</b>               | High priority recommendation representing a fundamental control weakness which exposes the organisation to a high degree of unnecessary risk.  |
| <b>Medium</b>             | Medium priority recommendation representing a significant control weakness which exposes the organisation to a moderate degree of unnecessary risk.  |
| <b>Low (Housekeeping)</b> | 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. |

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