

# **AUDIT & RESOURCES COMMITTEE**

**Tuesday 19 July 2022**

## **ANNUAL INTERNAL AUDIT REPORT 2021/22; MONITORING REPORT FOR THE PERIOD 1 JANUARY 2022 TO 31 MARCH 2022**

### **Report of the Chief Internal Auditor (Acting)**

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#### **Recommendation**

**It is recommended that consideration is given to:**

**(1) the Chief Internal Auditor (Acting)'s Annual Opinion for 2021/22; and**

**(2) the performance of the Internal Audit Section against planned outturn for quarter 4 of 2021/22.**

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#### **Summary**

- The Chief Internal Auditor (Acting) is satisfied that sufficient assurance work has been carried out to allow the formation of a reasonable conclusion on the adequacy and effectiveness of Eastleigh Borough Council's internal control environment.
- On the basis of the reviews and testing that the Internal Audit Section has undertaken during 2021/22, the Chief Internal Auditor (Acting) can confirm that the Council's framework of governance, risk management and control is adequate in most areas. However, during the year audit testing found that not all controls were operating in practice. This was highlighted within the appropriate audit report and recommendations made. Of the 17 audit assignments completed or commenced during the year 2021/22, to date limited assurance has been given for four of the audit reviews. It should be noted that eight audit reviews are currently at draft stage and a further three audit reviews remain in progress. Those reviews currently at draft stage have been taken into consideration when forming the opinion. A further update will be provided as part of the Chief Internal Auditor (Acting)'s next quarterly monitoring report and, if necessary, a revised Annual Opinion 2021/22.
- Performance against the Annual Internal Audit Plan for 2021/22 and Quarter

4 is reported in Appendix 1.

- Progress made on the implementation of Internal Audit recommendations is detailed in Appendix 2.

### **Statutory Powers**

S.151 Local Government Act 1972

Account & Audit Regulations 2015

Coronavirus Act 2020

## **Strategic Implications**

1. The Internal Audit Team provides independent assurance that the Council's risk management, governance and control processes are efficient, compliant, work effectively and support the ambitions of the Council. Internal Audit helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

## **Introduction**

2. The Accounts and Audit Regulations 2015 (the Regulations) detail the requirement for an internal audit function. It states that a relevant body must 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes in accordance with the proper practices in relation to internal control'. The standards for 'proper practices' for internal audit are laid down in the Public Sector Internal Audit Standards (the Standards).
3. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising and giving independent assurance to the Council that arrangements are in place to mitigate risk and these arrangements are operating effectively.
4. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council's objectives. Action taken to appropriately mitigate and address potential risks highlighted through audit reviews is the responsibility of system owners (operational and functional managers). Internal Audit can provide support and advice on the adequacy of mitigating action but to ensure they remain objective and independent cannot be responsible for the design or delivery of systems and processes.
5. The Internal Audit Charter defines the internal audit activity's purpose, authority and responsibility in line with the Standards. The Charter states that the Chief Internal Auditor (Acting) shall deliver an Annual Internal Audit Opinion, a report that can be used by the organisation to inform its Annual Governance Statement.
6. This report provides the Annual Internal Audit Opinion on the effectiveness of the Council's system of internal control, governance and risk management arrangements for 2021/22.

7. The Chief Internal Auditor (Acting) also provides regular updates to this Committee through a quarterly monitoring report on the performance against the Annual Internal Audit Plan. This report provides an update on the actual performance against the Plan for quarter 4 of 2021/22.

### **Internal Audit Approach**

8. Internal Audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.
9. A full range of internal audit services are provided in order to form the annual opinion:
  - Risk-based auditing – compliance and assurance reviews
  - IT audit reviews
  - Fraud and Irregularity reviews
  - System Development reviews
  - Contract Management and Final Account Reviews
  - Consultancy
  - Value for money reviews
  - Governance support
10. A three-year Strategic Internal Audit Plan is produced annually which is informed by Internal Audit's own assessment of risk and materiality in addition to consultation with management to ensure it is aligned to key risks facing the organisation and strategic priorities. From this an Annual Plan is developed which directs the work of the team. The Annual Internal Audit Plan is approved by this Committee in March each year.
11. The objectives and scope of each assurance review are subject to risk assessment and agreement with the client. Each of these reviews will result in an Audit Report and Opinion. The report will provide assurance and/or highlight weaknesses, enhancements or improvements in control or areas of non-compliance with prescribed controls and make recommendations for improvements. These recommendations are then agreed with the client and an action plan is completed by the client to identify the action to be taken, by whom and when. The Internal Audit Team will follow up the agreed recommendations to ensure action has been taken. Where action is not agreed and the risk is still considered key by the Chief Internal Auditor (Acting), the situation will be reported to the Executive Team and if necessary, the Chair of the Audit and Resources Committee.
12. The Chief Internal Auditor (Acting) provides this Committee with an update on the implementation of Internal Audit recommendations quarterly.

### **Internal Audit Performance 2021/22**

13. The Audit and Resources Committee approved the Annual Internal Audit Plan for 2021/22 on 9 March 2021. Performance against the Annual Internal Audit Plan for the first, second and third quarters of the year was reported to this Committee on 7 September 2021, 23 November 2021 and 8 February 2022.
14. Resources in 2021/22 comprised a Chief Internal Auditor (Acting), a full-time Internal Auditor and an Internal Audit Apprentice (fixed term contract to September 2024). An

additional 60 days were procured through an arrangement with an experienced Internal Auditor.

15. Resources were also used to carry out and support a number of investigations through the year. Where necessary, the Committee were updated on these throughout the year in the regular monitoring statements and Chair's briefings.
16. The Chief Internal Auditor (Acting) is also a member of the Procurement Executive Group, the Data Security Board, the Organisational Development Review Group, and the Strategic Risk Management Group.

### **Internal Audit Opinion 2021/22**

17. The following opinion is based on the audit activity undertaken during 2021/22. The Chief Internal Auditor (Acting) is satisfied that sufficient assurance work has been carried out to allow the formation of a reasonable conclusion on the adequacy and effectiveness of Eastleigh Borough Council's internal control environment.
18. On the basis of the reviews and testing that the section has undertaken during 2021/22, the Chief Internal Auditor (Acting) can confirm that the Council's framework of governance, risk management and control is adequate in most areas. On occasions, audit testing found that not all controls are operating in practice. This has been highlighted within the appropriate audit report and recommendations made as appropriate. Findings from these reviews have been provided to this Committee as part of the quarterly monitoring reports on 7 September 2021 (quarter 1), 23 November 2021 (quarter 2) and 8 February 2022 (quarter 3). A summary of reviews completed in quarter 4 is contained within this report in paragraph 28.
19. It is necessary to report that during the year significant risks around the lack of full and complete reconciliations for the following areas were identified, which have been highlighted and reported in previous audit reviews as a significant risk that is currently accepted and are still to be addressed:
  - Bank Reconciliation - the bank reconciliation still has an immaterial unreconciled balance. The Executive Head of Finance & Housing Programme has advised he is comfortable with this balance based on the level of risk it represents; however, work continues to resolve the processing issues within the system which are causing the small imbalance.
  - Accounting for Fixed Assets – currently there is no reconciliation of the CLP (Computerised Land and Property system) with the Financial Asset Register. The Executive Head of Finance & Housing Programme is comfortable that the two systems are not currently directly reconciled as there are numerous processes within the accounting policies and systems which ensure the Fixed Asset Registers are complete. The values are also checked by the Asset Management Team and external audit annually.
20. A total of 140 recommendations across 17 audit assignments completed during 2021/22 were made analysed and compared to 2020/21 and 2019/20 as follows:

| Priority                   | Number of Recommendations |                    |                    |
|----------------------------|---------------------------|--------------------|--------------------|
|                            | 19/20 (20 reviews)        | 20/21 (12 reviews) | 21/22 (17 reviews) |
| Grade 1<br>(critical risk) | 3                         | 0                  | <b>0</b>           |
| Grade 2<br>(high risk)     | 32                        | 15                 | <b>23</b>          |
| Grade 3<br>(medium risk)   | 121                       | 52                 | <b>87</b>          |
| Grade 4<br>(low risk)      | 45                        | 19                 | <b>30</b>          |
| <b>Total</b>               | 201                       | 86                 | <b>140</b>         |

\*3 reviews from 2021/22 to be completed during quarter 1 of 2022/23. An update of this table will be provided as part of the Quarter 1 monitoring report in September 2022.

21. A summary of the level of assurance and details of the implementation of recommendations graded 1 (critical risk) or 2 (high risk) in respect of 2021/22 audit reviews can be found in Appendix 2.

Limited assurance for the system of control was given in respect of 2 of the 17 audit assignments completed in 2021/22:

*Limited assurance* \*:

- Bank Reconciliation
- Construction and Maintenance

*\* a summary of the audit opinion for these two reviews can be found in paragraph 33 A further three audits currently at draft have been given limited assurance; these will be finalised and reported as part of the Quarter 1 monitoring report in September.*

22. In giving the annual audit opinion, assurance can never be absolute and therefore only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, the Chief Internal Auditor (Acting) has based the opinion on:
- Written reports on all internal audit work completed during the course of the year
  - Irregularity reviews
  - Results of any follow-up reviews undertaken in respect of previous years' work
  - Key risks identified during the year
  - Available audit resources during the period.

### **Quarter 4 2021/22**

23. As anticipated when planning for any response to a business continuity incident, the role of Internal Audit is always expected to be one of oversight and provision of advice on risk management, control and governance arrangements. The impact of

the Covid-19 pandemic proved to be no exception and during quarter 4 the Internal Audit Team continued to support the response through completing post assurance payment reviews.

24. The unprecedented situation has justifiably led to delays in completion of the 2021/22 planned audit reviews. Time to continue providing support specific to the Covid-19 situation has been included in the Internal Audit Plan 2022/23, which was approved by this Committee on 9 March 2022.
25. Appendix 1 shows an analysis of planned days against actual days for quarter 4.
26. The variances detailed in Appendix 1 have been unavoidable and essential and arose primarily from:
  - The pausing and postponement of some planned audit reviews.
  - Additional time spent working remotely and safely.
  - The Audit Team supporting each other's well-being during exceptional times through additional team meetings and contact time.
  - Supporting the Council with post-payment checking of the Business Support Grants.
27. The support the Internal Audit team has provided for the response to Covid-19 has equated to approximately 20 days in quarter 4.
28. The Internal Audit Team completed the following reviews during quarter 4:
  - Information Legislation (Adequate) (Recommendations 5 x priority 3, 1 x priority 4) Recommendations have been made for the Data Security Board to document and agree terms of reference, for the review and updating of the current Record of Processing Activity and Data Breach policy and associated documents and that a log of Data Sharing Agreements is established and maintained. The review identified improvements that could be made to GDPR and Cyber Security training arrangements.
  - Bank Reconciliation Interim FUR (Final) (Control Assessment: Adequate, Compliance Assessment: Limited) (Recommendations: 1 x Priority 2, 1 x Priority 4) The follow up review has taken into consideration the Draft Auditor's Annual Report Year ended 31 March 2021, by Ernst & Young, presented to Audit & Resources Committee on 11<sup>th</sup> January 2022 which has provided some control assurance with regards to the Council's financial statements. The priority 2 recommendation relates to the bank reconciliation still having an unreconciled balance. The Executive Head of Finance and Housing Programme has advised he is comfortable with this balance based on the minimal level of risk it represents, however work remains ongoing to resolve the processing issues within the system which are causing in the small imbalance.
29. Seven of the audits are at draft and will be subject to comment at a later monitoring report.

- Cash Collection & Banking
- Housing Benefits & Council Tax Support
- Local Taxation (Council Tax & NNDR).
- Case Management
- Developers Contributions/CIL
- Planning Fees FUR
- Payroll (20/21)

30. The following consultancy reviews, which provide guidance and advice and suggest action points were completed during quarter 4.

- Pensions

31. The following audits continue into 2022/23: and will be subject to comment in the next monitoring report:

- Accounting System
- Housing Developments – One Horton Heath FUR
- Accounts Receivable

### **Audit Recommendations**

32. Appendix 2 provides details of the internal audits completed during 2021/22 along with the level of assurance given and summary of number of recommendations made. As agreed, any 1 (critical risk) or 2 (high risk) graded recommendations are reported to this Committee and regular updates are provided detailing the progress of the implementation of recommendations.
33. At the time of writing this report there is one priority 2 recommendation outstanding from the reviews completed in 2021/22 (Bank Reconciliation FUR as reported at paragraph 28 above); any priority 1 or 2 recommendations on reports at draft will be reported to this committee on a future monitoring report. One priority 2 (high risk) recommendation remains outstanding from 2020/21 and one priority 2 (high risk) recommendation from 2019/20. The Chief Internal Auditor (Acting) is currently satisfied that appropriate action is being taken to address the outstanding recommendations and considers that there are no matters that require escalation or further input from this Committee.
34. The following two priority 2 recommendations remain outstanding from 2020/21 & 2019/20:

#### **2020/21 Audit Reviews (1 high risk recommendation):**

- Building Control Partnership – (1 recommendation) The review concluded that there was an adequate framework of control in place, but there is limited compliance with this framework of control. Although a Partnership Agreement between Eastleigh Borough Council and Southampton City Council is in place, the signing of a Deed of Variation to this agreement was

placed on hold pending a complete review of the Partnership Agreement. As such, compliance to these 'control' documents is weak. Current Building Control processes and procedures between the councils are not wholly reflected in the Partnership Agreement. As a result, 9 recommendations were made, one of these was assessed as priority 2 (high risk) regarding the need to draft a new Building Control agreement immediately that reflects current practice, processes and procedures. Discussion between parties have taken place and the final draft of the Partnership Agreement is in circulation and is expected to be completed in July.

**2019/20 Audit Reviews** (1 high risk recommendation):

- Accounting for Fixed Assets (Land and Property) (1 recommendation) this recommendation is to reconcile the Computerised Land and Property System (CLP) with the Finance Asset Register as part of the development of a new Asset Management System. This has been delayed due to the new system not yet having been implemented; however, work is progressing to ensure data management is optimal for the reconciliation of both systems annually. The Executive Head of Finance & Housing Programme is comfortable that the two systems are not currently reconciled as there are processes within the accounting policies which ensures the Fixed Asset Registers are complete and the values are also checked by external audit annually.

35. Progress of the implementation of these recommendations is closely monitored by the Chief Internal Auditor (Acting). Officers responsible for the implementation of the recommendations provide explanations of why full implementation is not currently possible and on occasions request extension to the implementation dates. Where the explanation appears unreasonable, the matter is escalated to the Corporate Leadership Board.

**Counter Fraud**

36. The Chief Internal Auditor (Acting), as a separate agenda item, will present the third Counter Fraud Report to the Committee which reviews how the Internal Audit Team promoted an anti-fraud culture during 2021/22 This supports the requirements of the Accounts and Audit Regulations (England) 2015 which states that the Council must have measures in place 'to enable the prevention and detection of inaccuracies and fraud'.
37. In October 2014 the Department for Communities and Local Government (DCLG) published the Local Government Transparency Code 2014 (this has since been superseded by the Local Government Transparency Code 2015). The Code has been issued to meet the Government's desire to place more power into citizens' hands to increase democratic accountability. Under this Code it is a legal requirement for local authorities to publish specified data. Specific fraud data for 2021/22 was published on the Council's website in June 2022 (<https://www.eastleigh.gov.uk/council/general-public-information/transparency-code/fraud>).

## **Compliance with the Public Sector Internal Audit Standards 2013 (revised 2017)**

38. During quarter 4 an independent external assessment of compliance with the Standards was carried out by Business Risk Solutions. The Chief Internal Auditor (Acting) is pleased to inform this committee that Internal Audit have successfully attained the following Opinion of the external Assessor:

Opinion: Eastleigh Borough Council internal audit service is delivering to a standard that generally conforms with the Public Sector Internal Audit Standard.

39. A full report will be presented to this Committee at the next meeting.

### **Financial Implications**

40. There are no direct financial implications arising from this report. By the nature of the work of Internal Audit, recommendations made will highlight potential areas for efficiency which can lead to savings.

### **Risk Assessment**

41. Under the Accounts & Audit Regulations 2015, at least annually a review of the effectiveness of the Council's systems of internal control must be conducted. This report meets those requirements.

### **Equality and Diversity Implications**

42. The Equality Act is not relevant to the decision in this report and an Equality Impact Assessment has not been carried out.

### **Climate Change and Environmental Implications**

43. There are no proposals within this report to assess with regard to climate change and environmental implications. However, some recommendations for example those made by Internal Audit arising from the audit review of Climate Change and Environmental Emergency Strategy, may have direct or indirect result on benefits and improvements to activity surrounding climate change and environmental implications.

### **Conclusions**

44. The Chief Internal Auditor (Acting) can confirm that the Council's overall internal control framework is adequate, and the controls tested are working effectively, with the exception of some controls which have been subject to separate comment through quarterly monitoring reports. The implementation of audit recommendations will continue to be closely monitored to ensure appropriate action has been taken to address weaknesses in governance, risk management or control arrangements.
45. On the basis of the reviews and testing that the Internal Audit Section has undertaken during 2021/22, the Chief Internal Auditor (Acting) can confirm that the Council's framework of governance, risk management and control is adequate in most areas.
46. Three audit reviews from the 2021/22 Internal Audit Plan are still in progress and the outcome of these reviews will be included in the Chief Internal Auditor (Acting)'s

next quarterly monitoring report. If necessary, a revised Annual Opinion for 2021/22 will also be provided.

LISA SMY  
CHIEF INTERNAL AUDITOR (ACTING)

DATE: 07 JULY 2022  
Contact Officer: Lisa Smy  
Tel No: 023 8068 8229  
e-mail: lisa.smy@eastleigh.gov.uk  
Appendices Attached: Two  
\*Report No Internal Audit Annual Report 2021/22 & Qtr 4 Monitoring

### **LOCAL GOVERNMENT ACT 1972 - SECTION 100D**

The following is a list of documents which disclose facts or matters on which this report or an important part of it is based and have been relied upon to a material extent in the preparation of this report. This list does not include any published works or documents which would disclose exempt or confidential information.

Accounts and Audit Regulations 2015  
Public Sector Internal Audit Standards 2013 (revised 2017)  
CIPFA Delivering Good Governance in Local Government: Framework 2016