

Bath & North East Somerset Council

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| MEETING: | Corporate Audit Committee | |
| MEETING DATE: | 28 th April 2022 | AGENDA ITEM NUMBER |
| TITLE: | Audit & Assurance Annual Report 2021/22 | |
| WARD: | ALL | |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report: | | |
| Appendix 1 - Audit Reviews Position Statement (2021/22) | | |

1 THE ISSUE

- 1.1 This is the Annual Report (2021/22) of the Internal Audit function including a summary of Internal Audit performance, key findings / issues, as well as the formal opinion on the internal control framework.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee notes the Internal Audit Annual Report 2021/22 and formal opinion on the internal control framework.

3 THE REPORT

- 3.1 The Annual Internal Audit Plan for 2021/22 was presented to the Corporate Audit Committee on the 29th April 2021. The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the Council's internal control environment.
- 3.2 The Committee received formal updates on delivery against the plan on the 23rd September and 15th December 2021. At the December meeting ten of the planned audits had got to report stage of which eight were 'Assurance Reports' and had therefore been assigned assurance ratings – six were Level 4 'Substantial Assurance' and the remaining two were Level 3 'Reasonable Assurance'.

3.3 HEADLINES FOR FINANCIAL YEAR 2021/22

The summary position as of 31st March 2022 is as follows:

- 29 out of the 36 (81%) of the core planned audit reviews were 'complete'. Of the 7 planned audit reviews not carried out, 4 are included in the Internal Audit Plan for 2022/23, a decision was taken to re-prioritise the remaining 3 (Property Acquisitions; Pension Fund – Digital Strategy Review; and Governance Decision Making) based on the audit needs assessment process and they were not included in the 2022/23 planned core audit review listing.
- Significant resources were allocated to directly assist in the response to Covid19 (Social Care) and also to provide assurance relating to compliance with terms and conditions associated to funding made available to B&NES Council.
- There have been two finalised audit reports issued (IT Patch Management & Asset Management) where it was considered that the overall systems of internal control provided 'Limited Assurance'.
- The Internal Audit service were involved in three investigations. Two of these involved the investigation of staff and resulted in disciplinary proceedings. One of these was a result of an external whistleblowing report.
- Assurance work was carried out and Audit Report Letters despatched to the relevant funding body, e.g. WECA for 19 grant funded projects / activities to provide independent assurance that B&NES Council had complied with grant expenditure terms and conditions – e.g. eligibility of spend.
- Anti-Fraud and corruption training and guidance provided to B&NES employees. Co-ordination of the Cabinet Office National Fraud Initiative.
- Took a leading role in the annual governance review of the Council enabling the Annual Governance Statement 2020/21 to be compiled and included in the Council's Statement of Accounts.
- Based on Internal Audit work carried out it's the opinion of the Chief Audit Executive that the Internal Control framework is satisfactory. However, the work of the team (observational and audit testing) is impacted by remote working (response to Covid 19) of auditors and auditees / clients.

3.4 2021/22 ASSURANCE RATINGS (Core Planned Audit Reviews)

3.4.1 From the audit reviews completed in the 2021/22 financial year, all but two of the audits completed had an overall audit opinion of satisfactory to excellent (between 'Level 3' and 'Level 5'). There were not any significant control issues identified based on internal audit's consultancy, advice, and guidance work provided. An analysis of the 'core' audit reviews carried out and issued as 'Final' Reports in 2021/22 identified that:

1) 67% were providing Full or Substantial Assurance – i.e. Excellent (Level 5) or Good (Level 4)

2) 16% were providing Reasonable Assurance – i.e. Satisfactory (Level 3)

3) 17% were providing Limited Assurance – i.e. Weak (Level 2).

The average Assurance Rating for 2021/22 was calculated at Level 3.5 compared to 3.82 in 2020/21.

3.4.2 The two audit reports issued where it was considered that the overall systems of internal control were weak – 'Limited Assurance' (Level 2) were both IT reviews – Patch Management & Asset Management.

Patch Management

3.4.3 The key control objectives under review as part of the Patch Management review were:

1) Ensure that potential software vulnerabilities are managed by the timely installation of software patches only provided by trusted sources.

2) Ensure that installation of provided software patches do not disrupt the quality and/or continuity of IT infrastructure and services.

3.4.4 Patch management, or security update management, refers to the process of acquiring, testing and installing software updates, in a timely manner, to ensure that devices and software are not vulnerable to known security issues, for which fixes are available. It is a part of the organisation's threat and vulnerability management process. Security update management is one of the five technical control themes in the National Cyber Security Centre's (NCSC) "Cyber Essentials" accreditation scheme and is also part of the "10 Steps to Cyber Security" (step five, vulnerability management), the NCSC's guidance on how organisations can protect themselves in cyberspace.

3.4.5 For obvious cyber security reasons the exact weaknesses identified as part of this review are not being reported.

3.4.6 It can be reported that IT management accepted the Internal Audit recommendations – many actions have already been taken and the outstanding recommendations are limited to updating Policy documents and agreeing a protocol to improve the service-based software management.

Asset Management

3.4.7 The key control objectives under review as part of the Asset Management review were:

- 1) Ensure that laptop assets are procured to support the corporate strategy and that procurement is compliant with rules & regulations.
- 2) Ensure that laptop assets are recorded for accounting purposes, kept secure and that any loss or misappropriation is investigated prior to the asset records being updated.
- 3) Ensure that laptop assets are disposed of securely, with all confidential and sensitive data removed, and compliant with data protection regulations and environmental standards.

3.4.8 As a result of the “Preparing for the Future Programme”, which includes a technology refresh to streamline the Council’s use of office buildings and facilitate more flexible working practices has required a revised ICT strategy. The Council is moving away from a traditional thin-client operating environment (majority of users connected to the Council’s network via a Citrix Virtual Desktop Interface), to a thick-client operating environment. The technology refresh aims to roll-out approximately 2,000 new laptops to users, improving the remote working experience. As of March 2022, the Council is initiating Phase 3 of the laptop rollout programme, which includes all remaining staff who need a laptop.

3.4.9 Alongside the rollout of the new laptop hardware and increased use of cloud-based applications, IT Services has been improving its asset management capability by moving to Microsoft Azure Active Directory (Azure AD) for identity and access management. Azure AD has not yet been integrated with ServiceNow, the Council’s primary tool for managing incidents, problems and users. Completing the integration will further strengthen the asset management capability of IT Services.

3.4.10 The audit review identified several weaknesses including:

- 1) The “Disposal of Removable Media Policy” was last updated in May 2011 and therefore did not reflect the current IT environment or disposal practices. A revised policy needed to be approved and disseminated effectively.
- 2) The Council's buildings and content insurance policy does not include cyber insurance to protect the business from threats such as data breaches or malicious cyber hacks. Requires the Insurance adviser to identify what cyber security breach insurance coverage is available and to consider the cost of insurance premiums compared to the cost of potential losses.
- 3) Leavers’ IT equipment was not consistently returned to IT for redeployment; and a number of leaver user profiles had not been removed from the laptops used and their profiles were still enabled on Azure Active Directory. A number of recommendations were made to improve the leaver process, and all were accepted by management.

3.5 INVESTIGATIONS & WHISTLEBLOWING

3.5.1 There were three investigations in the 2021-22 financial year requiring an Internal Audit input:

- 1) Investigation – Payroll Bank Mandate Scam
- 2) Investigation – Officer Abuse of Position – misuse of Council assets
- 3) Investigation – Employee – ineligibility to Council Tax Single Person Discount

3.5.2 An update on key issues arising from investigations will be included in our report on Counter Fraud & Corruption to the Committee later in the year.

3.6 COUNTER FRAUD & CORRUPTION

3.6.1 Work has been carried out during the end of 2021/22 and into the new financial year on updating the Council's Counter Fraud Strategy and associated policies (Whistleblowing Policy, Anti-Bribery & Corruption, Anti-Money Laundering Policy and Guidance).

3.6.2 A report will be presented to the July meeting of this Committee to present the revised Strategy and Policies and provide a full update on anti-fraud and corruption related work. This will include a position statement on the findings of the National Fraud Initiative 2020/21 which has involved a review of the data matching reports generated by the Cabinet Office based on the submission of data from public sector organisations.

3.7 UNPLANNED WORK

3.7.1 In addition to the secondment of a member of the Internal Audit Team to directly assist in the response to Covid19 (Social Care) the Internal Audit team has completed other unplanned work.

3.7.2 This included a review of the use of a large petty cash / client cash imprest account (£20,000 float). We received information that the account had been used to reimburse an Independent Social Worker for work carried out to support a child under the care of the Council. The petty cash account should not be used to make any payment to remunerate staff or contractors / consultants because of the risk of taxation liability. An audit was therefore carried out to:

- 1) provide assurance that the petty cash imprest account was only being used to pay for goods and services where it wasn't appropriate / effective to use other payment methods and that all expenditure through the account was in compliance with Council rules and regulations including Financial Regulations and other 'informal' procurement rules / guidance.
- 2) provide assurance that roles and responsibilities with regard to administering the petty cash imprest and authorising expenditure through this payment method were clear, adopted by all those with a role in approving payments and making payments.

- 3) provide a risk-based action plan with improvements to the areas under review to improve the system of internal control and levels of corporate assurance.

3.7.3 The work was completed in March 2022 and it identified that between April 2021 and January 2022 payments totalling £162,737 had been processed.

3.7.4 The issues identified were low level in terms of risk but included:

- 1) Lack of documentation held to adequately evidence the expenditure or audit trail regarding the request for payment, e.g. receipts not held.
- 2) Authorisers of expenditure had not been approved following the adopted Agresso Financial System Authorised Officer approval process.
- 3) A further 4 cases of consultancy services payments being paid through the imprest account. As per the Council's Financial Regulations, Code of Practice and Procurement Contract Standing Orders, payments for consultants and professional services must be made through the Corporate Accounting System (Agresso). This is particularly important in order to ensure that relevant IR35 employment status checks have been carried out and 'Due Diligence' has been completed on suppliers prior to engagement.

Although there was documentation to inform administrators and service users of the type of payments that could / could not be processed through the imprest it was concluded that dissemination through training and guidance was not effective. The culture and lack of challenge by managers / supervisors and administrators had resulted in breaches of the Council rules relating to payments.

3.7.5 A management response is awaited. Recommended actions will be followed-up to ensure compliance with Council rules.

3.8. CORE INTERNAL AUDIT REVIEWS – POSITION STATEMENT

3.8.1 As stated in the Section 3.3, 29 out of the 36 (81%) of the core planned audit reviews were 'complete'. Of the 7 planned audit reviews not carried out, 4 are included in the Internal Audit Plan for 2022/23, a decision was taken to re-prioritise the remaining 3.

3.8.2 Appendix 1 below records the position as at 31st March 2022. To summarise at the end of the financial year:

- 12 Final Audit Reports
- 1 Draft Audit Report
- 4 Briefing / Position Statement Reports
- 12 Audits Work-In Progress – at or near report writing stage

3.9 IMPLEMENTATION OF RECOMMENDATIONS

3.9.1 During 2021/22, 22 Audit Reports carried out in 2019/20 (12 Reports) and 2020/21 (10 Reports) were followed up to verify the implementation of recommendations.

3.9.2 The Follow-Up process requires management to provide their feedback on implementation of recommendations. If the recommendation is linked to 'High' risk weakness, then the Auditor carrying out the Follow-Up will seek evidence of implementation. It is pleasing to report that the findings were good in that recommendations for 18 of the 22 Reports had been implemented by management.

3.9.3 There were 4 Audit Reports where it was identified that recommendations had been implemented in part or the planned date of implementation had been revised. This is summarised below:

| Audit Name | Recommendations Raised | | | | Recommendation Status |
|---|------------------------|-----------|----------|-----------|--|
| | High | Medium | Low | Total | |
| Avon Pension Fund – Code of Practice 14 Data Protection | | 5 | | 5 | 1 recommendation implemented. 1 recommendation not implemented and agreed revised implementation date 4 recommendations partially implemented with agreed revised implementation date agreed. |
| Adults - Integrated Care Records | 3 | 7 | 2 | 12 | 3 'H' partial implementation – agreed revised implementation date. 1 'M' recommendation implemented, 6 'M' with agreed revised implementation dates. 2 'L' recommendations not implemented and agreed revised implementation dates. |
| Sundry Debtors & Debt Recovery | 2 | 4 | 1 | 7 | 2 'H' partial implementation – review and update of Council's Financial Regulations and Debt Recovery Policy has been delayed. Medium / Low recommendations either fully or partially implemented apart from 1 recommendation linked to the update of Council FR's |
| Property Compliance | 3 | 9 | | 12 | The report to Committee on 15 th Dec 2021 provided an update on implementation of the 3 'H' recommendations – 2 were assessed as amber and 1 green ('implemented'). This opinion was based on the position statement provided by the Council's Chief Operating Officer (COO) in October 2021. |
| Total | 8 | 25 | 3 | 36 | |

3.10 COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS

3.10.1 In December 2017 a report was presented to the Committee on the Public Sector Internal Audit Standards and based on this report the Committee approved an Internal Audit Charter. The Internal Audit Charter has been reviewed annually and updated when required.

3.10.2 The Internal Audit Charter states that Audit West through its engagement lead will report periodically to the Corporate Audit Committee regarding Internal Audit conformance to the Code of Ethics and the Standards and this is being separately reported to the Committee as part of the Internal Audit Plan 2022/23 report.

3.11 FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK

3.11.1 The Internal Audit Charter states that the Chief Audit Executive is required to give an opinion on the internal control framework.

3.11.2 Statement of the Chief Audit Executive—

In forming an opinion on the internal control framework, I have considered the work of the Audit & Assurance function as well as consideration of the wider governance framework, other assurances we can place reliance on and performance of the Council.

As highlighted during previous reports to this Committee, it was reported that the Council's internal control framework was satisfactory, however, it was also highlighted that the opinion provided was tempered by enforced remote working due to Covid-19 and government advice to work from home.

Remote working has continued throughout 2021/22 and, coupled with the level of unplanned work and like in 2020/21 there was a need to consider whether a limited or qualified opinion should be issued as a result of the changing plan. The Committee have been kept fully informed during the financial year of progress on completing the approved Internal Audit Plan, the need to maintain a flexible Plan, and the impacts of unplanned work.

The Institute of Internal Auditors guidance states that if the Audit Committee has agreed to the changed plan, then there is no need for a limited opinion; the opinion will reflect the work detailed as agreed.

There have been minor amendments to the 2021/22 Plan and it is therefore my opinion that, based on the limited planned work completed due to the circumstances of Covid-19, the Council's internal control framework and systems to manage risk are reasonable.

- Reasonable assurance can be provided over the council's systems of internal control, helping to ensure corporate priorities can be achieved;
- Agreed policies, Financial Regulations and Contract Standing Orders were broadly being complied with;
- Managers throughout the council were aware of the importance of maintaining adequate and effective governance arrangements;

- Appropriate arrangements were operated to deter and detect fraud and investigations did not identify any systemic failures;
- Senior Management - led by the Chief Operating Officer as risk management sponsor – demonstrate a pro-active approach to the fundamental themes of good governance and risk management.
- There were no fundamental system failures or control breakdowns to business-critical functions.

The ongoing financial challenge, heightened by the pandemic and more recently the conflict in Ukraine, places further pressure on all Council services to respond and manage risk in a proportionate way. The Council's financial position remains very challenging. A robust Internal Audit service is a vital component of the Council's governance systems and provides the third and final line of defence in relation to the internal control framework.

The Audit Committee's support of our work and maintaining effective corporate governance is appreciated and I would like to thank members of the committee for their input and guidance over the year.

4 STATUTORY CONSIDERATIONS

- 4.1 There are no specific statutory considerations related to this report. Accounts & Audit Regulations set out the expectations of provision of an Internal Audit service. This is supported by S151 of the Local Government Act and CIPFA Codes of Practice and the IIA professional standards for delivery of an adequate Internal Audit Service.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 5.1 There are no direct resource implications relevant to this report.

6 RISK MANAGEMENT

- 6.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance. Significant risks to the council arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees, undetected fraud and inadequate coverage of risks arising from COVID-19. Internal Audit assists the council in identifying risks, improvement areas and recommending good practice.
- 6.2 The Corporate Audit Committee has specific responsibility for ensuring the Council's Risk Management and Financial Governance framework is robust and effective.

7 EQUALITIES

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 CLIMATE CHANGE

8.1 There are no direct climate change implications related to this report.

9 OTHER OPTIONS CONSIDERED

9.1 No other options to consider related to this report.

10 CONSULTATION

10.1 The Council's Section 151 Officer has had the opportunity to input to this report and has cleared it for publication.

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| Contact person | <i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i> |
| Background papers | <i>Reports to Corporate Audit Committee – 5th December 2017 - Public Sector Internal Audit Standards; 29th April 2021 - Internal Audit Plan - 2021/2022; 15th December 2021 Internal Audit Update Report.</i> |
| Please contact the report author if you need to access this report in an alternative format | |

| Ref | Topic | Status | Assurance Level | Recommendations | |
|---------|--|----------------|-----------------|-----------------|--------|
| | | | | Made | Agreed |
| 21-001B | Covid19 - Restrictions - Business Grants | Briefing Paper | Briefing | Paper | |
| 21-002B | Covid19 - Adult Social Care Grant Funding Management | Final | 4 | 4 | 4 |
| 21-003B | Covid19 - Supplier Relief - Adult Social Care Providers | Final | 4 | 2 | 2 |
| 21-004B | Covid19 - Contain Outbreak Funding | WIP | | | |
| 21-005B | Covid19 - Next Steps Accommodation Short & Long Term | Final | 4 | 1 | 1 |
| 21-006B | Clean Air Zone (Income & Interfaces) | Final | 4 | 7 | 7 |
| 21-007B | Covid19 - DWP Winter Support Grants | Final | 4 | 1 | 1 |
| 21-008B | Covid19 - Emergency Assistance Grant for Food and Essential Supplies | Final | 4 | 1 | 1 |
| 21-009B | In-Year Budget Management & Forecasting | WIP | | | |
| 21-010B | Property - Revenue Estate - Debt Recovery & Write Offs | WIP | | | |
| 21-011B | IT Audit - Secure Configuration (New laptops) | WIP | | | |
| 21-012B | IT Audit - Cloud and Hosted Systems Management iTrent (Identity and Access Management) | Final | 3 | 6 | 6 |
| 21-013B | Highways Interventions & Drainage | c/f 2022/23 | | | |
| 21-014B | Joint Agency Panel | Briefing Paper | Briefing | Paper | |
| 21-015B | Climate & Nature Emergency - Response | WIP | | | |
| 21-016B | IT Audit - Patch Management (Laptops) | Final | 2 | 5 | 5 |
| 21-017B | Community Resource Centre & Extra Care Housing | Final | 3 | 12 | 12 |
| 21-018B | Avon Pension Fund - Business Continuity | Briefing Paper | Briefing | Paper | |
| 21-019B | Property - Revenue Estate - Asset Utilisation | c/f 2022/23 | | | |
| 21-020B | Tenancy Fraud | Briefing Paper | Briefing | Paper | |
| 21-021B | Property - Revenue Estate - Management of Tenant Responsibilities | WIP | | | |
| 21-022B | Health Safety & Wellbeing - Managing the Risks | WIP | | | |
| 21-023B | Property - Revenue Estate - Property Acquisitions | Not Started | | | |
| 21-024B | Avon Pension Fund - Pensions Governance COP 14 | WIP | | | |
| 21-025B | Children Disabilities | Draft | 3 | 5 | |
| 21-026B | Property - Revenue Estate - Rent Reviews | WIP | | | |
| 21-027B | Avon Pension Fund - Pensions Payroll | Final | 4 | 5 | 5 |
| 21-028B | Avon Pension Fund - Digital Strategy Review | Not Started | | | |
| 21-029B | Traffic Signals & Intelligent Network (Contract Management) | Final | 4 | 5 | 5 |
| 21-030B | GLL Contract Management - Governance | c/f 2022/23 | | | |
| 21-031B | IT Audit - Incident Response Plan | WIP | | | |
| 21-032B | IT Audit - IT Asset Management (Laptops) | Final | 2 | 6 | 6 |
| 21-033B | Governance - Decision Making | Not Started | | | |
| 21-034B | IT Audit - Capacity and Availability | WIP | | | |
| 21-035B | Alternative Learning | c/f 2022/23 | | | |
| 21-036B | Welfare Support | WIP | | | |