



Internal Audit Annual Report

2020/21

Audit and Governance Board - 7 July 2021

Section One

Purpose of report

1.1 Introduction

In accordance with the Public Sector Internal Audit Standards, the Head of Internal Audit is required to provide an annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. This is achieved through delivering a risk-based plan of work (the Internal Audit Plan), which has been agreed with management and approved by the Audit and Governance Board.

The Standards require that the annual report includes the following:

- An opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment;
- Disclose any qualifications to that opinion, together with the reasons for the qualification;
- Present a summary of the audit work from which the opinion is derived;
- Draw attention to any issues that the Head of Internal Audit considers particularly relevant to the preparation of the Annual Governance Statement;
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria;
- Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

1.2 Purpose of report

The purpose of this report is to satisfy the requirements of the Public Sector Internal Audit Standards by providing an annual opinion. The Board is asked to note the report's content and the opinion provided.

Section Two

Annual Opinion

2.1 Basis of Opinion

The annual opinion is based on the following sources of information:

- Review of the risk management arrangements within specific business areas;
- The work of Internal Audit in reviewing the Council's governance arrangements and annual review of the Constitution;
- Assessment of the range of audit assurance opinions arising from audit assignments that have been reported to the Audit and Governance Board throughout the year. This assessment has taken account of the relative materiality of each area audited;
- Assessment of management's responses to Internal Audit's recommendations and the progress made in addressing risks and issues identified through internal audit work;
- Cumulative audit knowledge and experience of the organisation.

2.2 Qualifications to the Opinion

The Internal Audit Annual Opinion helps to inform the content of the Annual Governance Statement. However, it should be noted that in providing an opinion assurance can never be absolute.

Internal Audit cannot review all the risks that the Council faces and can only provide reasonable assurance that there are no major weaknesses in the Council's risk management, control and governance processes. The opinion is largely informed by the audit work completed. Weaknesses may exist in areas that did not form part of the programme of audit work or if specific areas were excluded from the scope of individual audit assignments.

Ultimately, senior management and elected members are responsible for ensuring an effective system of internal control. It is however important to note that Internal Audit continues to enjoy a positive working relationship with senior management across the Council. Management has been supportive in terms of the work of Internal Audit and has responded positively to any recommendations made.

2.3 Coverage and output

Internal audit delivered 890 of the 1,125 planned days of audit work during 2020/21. As reported to the Board throughout the year, completion of the planned number of days of audit work was not achievable. This was largely due to the Covid-19 pandemic, which necessitated the Internal Audit team supporting other business areas in the early part of the year at the expense of planned audit work.

Section Two

Annual Opinion

Covid-19 obviously presented a major challenge to the Council and had a significant impact on all areas of the organisation. In terms of Internal Audit, there was significant involvement in terms of the Council's response, particularly in the form of additional assurance work around the various Government support schemes put in place. Unplanned audit reviews were also completed on emerging risk areas, such as PPE, accounting for Covid and homeworking.

As reported in the progress reports to the Board throughout the year, numerous changes to planned work were necessary in order to provide assurance over the changing risks that the Council faced as a result of the pandemic. Additionally, some planned audit work needed to be deferred to minimise the impact on services at the frontline of the Council's pandemic response.

The audit work completed during the year was therefore significantly different to that originally planned. However, under the circumstances, it was appropriate for Internal Audit's coverage to reflect the Council's changing risk environment. This is important in terms of adding value to the organisation and in ensuring that a robust annual audit opinion can be provided. The work completed is therefore considered sufficient and wide-ranging enough to support the annual audit opinion.

The following table summarises the audit reports issued in the year and a summary of the audit assurance opinions provided. Comparative information is also provided for the two preceding financial years.

Financial year	No. of audit days	Substantial Assurance	Adequate Assurance	Limited Assurance	Total
2020/21	890	46	5	1	52
2019/20	684	36	6	0	42
2018/19	883	43	7	1	51

A full list of the audit assignments that have helped inform the opinion is provided in Appendix A. Each audit is graded in terms of how well risks were managed in the area under review. Three different assurance levels are used: substantial, adequate and limited. Definitions of the assurance levels are provided in Appendix C.

Section Two

Annual Opinion

2.4 Follow-up audit assignments

Five follow-up audits were completed during the year and these are listed in Appendix B. Follow-up audits examine the progress that management has made in implementing previously agreed audit recommendations. A revised assurance opinion is issued for each review, which is informed by the extent to which the issues identified in the original audit report have been addressed.

All five follow-up audits completed during the year received substantial assurance opinions.

2.5 Limitations placed on internal audit

During the year, there have been no matters arising which have impacted on the independence of the Internal Audit service and there have been no inappropriate scope or resource limitations on internal audit work.

As previously reported to the Board, the Head of Internal Audit also has managerial responsibility for a number of other finance functions. Arrangements to safeguard the independence of Internal Audit are well-established and have previously been reported to and agreed by the Board. These arrangements have operated effectively throughout the year.

Two audits were completed during the year that included coverage of areas for which the Head of Internal Audit also had some operational responsibilities. These audits related to 'Accounts Payable – Feeder Systems' and 'Accounting for VAT'.

2.6 Conformance with the Public Sector Internal Audit Standards

Under PSIAS, internal audit services are required to have an external quality assessment every five years. The Council's external assessment was completed during 2017/18 and the overall conclusion was that the Council's internal audit arrangements substantially conform to the standards. There were no departures from these arrangements in 2020/21.

2.7 Issues relevant to the Annual Governance Statement

Where issues have been identified through internal audit work, management has responded positively. There are therefore no outstanding issues that have implications for the Annual Governance Statement.

A recurring theme identified in the course of completing audits is the challenge faced across the whole Council in continuing to deliver services and maintain appropriate risk management, control and governance arrangements at a time of continuing funding challenges and budgetary pressures. This issue has however been recognised by the Council and is reported upon in the 2020/21 draft Annual Governance Statement.

Section Two

Annual Opinion

2.8 Overall opinion

Halton Borough Council continues to maintain adequate and effective risk management, control and governance processes. This opinion is based on the internal audit work performed during 2020/21 and from cumulative knowledge and experience of the organisation.

There has been positive engagement with management in agreeing recommendations where audit work has identified weaknesses in the design or application of controls. Action plans are in place to address all issues identified through the work of internal audit.

The results of the follow-up audits completed also provide assurance that the actions agreed in response to audit reports are implemented.

Section Three

Quality Assurance and Improvement Programme

3.1 Quality Assurance

The development and maintenance of a Quality Assurance and Improvement Programme (QAIP) is a requirement within PSIAS.

The purpose of the QAIP is to ensure that the internal audit service operates in accordance with PSIAS and the Local Government Application Note (LGAN) and maintains consistently high standards.

Key elements of the quality assurance arrangements are described below:

- The Internal Audit team is made up of appropriately trained and qualified staff with significant local government experience. The majority of the team are members of professional institutes and all of the team complies with ethical rules, technical standards and professional practice laid down by those bodies;
- Internal audit work is based upon a detailed risk-based audit plan, which is agreed in consultation with management and is approved by the Audit and Governance Board;
- Internal Audit employs an audit methodology that is in accordance with professional standards;
- Terms of reference are developed with key stakeholders for each audit assignment, which set out the agreed coverage;
- Robust management review is undertaken of all audit files and reports prior to issue;
- There is a system of regular reporting of progress against the plan to the Audit and Governance Board;
- All Internal Audit staff complete annual declarations confirming their compliance with the Code of Ethics;
- There is a commitment to the continuing professional development of all internal audit staff through a range of learning and development opportunities. These include professional training, on the job training, e-learning, webinars and attendance at relevant training events and workshops.

3.2 Feedback from audit clients

Internal Audit invites feedback on the quality of service provided by issuing a 'satisfaction questionnaire' at the end of each audit. This is an important process in terms of identifying how the audit was received by the service area. It is also an important means of identifying aspects of the audit process that can be improved.

Section Three

Quality Assurance and Improvement Programme

The feedback received from the surveys returned in the year was very positive and there were no common themes in the responses received that highlighted any particular areas for improvement.

A sample of comments received in response to the questionnaires is included below:

- *The auditor demonstrated a good understanding of the Council's arrangements for accounting for VAT. Excellent communication throughout the audit. The audit will be helpful to the Council in demonstrating our governance arrangements for VAT to HMRC.*
- *The audit was excellent. We were a bit apprehensive to have the audit in the current situation; however the auditor supported us completely and we found the whole experience supportive. Thank you.*
- *Very pleased with all aspects of the Audit team who have been very helpful throughout.*
- *The audit was carried out in a thoroughly professional manner. Feedback at all times was constructive.*

3.3 Areas for development

As with many teams across the Council, the Covid-19 pandemic impacted significantly on the Internal Audit team and the way in which it delivers its work. The move to remote auditing has in fact been a successful experience and has not impacted on productivity. This is evidenced by the amount of work delivered during 2020/21 despite the challenges faced, particularly at the early stages of the pandemic when the completion of audit work was very difficult.

Across the wider Council, it appears likely that many teams will not go back to a predominantly office-based service when we emerge out of the pandemic. It is therefore very likely that the Internal Audit team will in future adopt a hybrid approach to work, with staff predominantly being home-based but going into the office as the requirements of the service dictate.

In response to these changes, some revised performance management and support arrangements have been put in place for the Internal Audit team. These changes are intended to help ensure quality and delivery of work, whilst also providing support to staff working remotely and to maintain a sense of 'team'.

These arrangements include:

- Allocating an annual plan of work to each auditor to manage and agree delivery timescales with the relevant service areas;
- A greater focus on outcomes with each auditor identifying the audits they will aim to complete for each meeting of the Board;

Section Three

Quality Assurance and Improvement Programme

- Brief daily team meetings to discuss progress on each piece of work and to allow the team to discuss issues and to support one another.

Additionally, as part of an MBA in Leadership and Management, the Audit & Investigations Manager is in the process of completing a dissertation on 'lean auditing'. Lean auditing refers to the application of 'lean' principles to the internal audit process. 'Lean' is about working in the most efficient and effective way. The focus is on ensuring that the whole process adds value to the customer and is completed by the quickest and most effective means to achieve the desired end product or goal for the customer.

It is therefore anticipated that the findings and recommendations from the dissertation will also be used to make further refinements to the delivery of the internal audit service.

Appendix A

Summary of audit assignments

A summary of the audits completed in the year is set out below showing the assurance level for each assignment. The audits are grouped according to the Board meeting at which they were presented:

18 November 2020

	Assignment	Assurance Level
1.	Complex Care Pooled Budget	●
2.	Victoria Road Primary School	●
3.	Lunts Heath Primary School	●
4.	Liverpool City Region Grant - Runcorn Station Quarter - Q1 2020/21	●
5.	Liverpool City Region Grant - Runcorn Station Quarter - Q2 2020/21	●
6.	Local Growth Fund (LGF) Grant - Silver Jubilee Bridge - Q1 2020/21	●
7.	Local Growth Fund (LGF) Grant - Silver Jubilee Bridge - Q2 2020/21	●
8.	Town Centre Fund Grant Claim – Halton Lea Q1 2020/21	●
9.	Town Centre Fund Grant Claim – Halton Lea Q2 2020/21	●
10.	Troubled Families (July 2020)	●
11.	Troubled Families (October 2020)	●
12.	Local Authority Discretionary Grant Fund	●
13.	Small Business Grant Fund & Retail, Hospitality and Leisure Grant Fund	●
14.	Be More (Halton) – Apprenticeship Hub	●
15.	Skills Capital Investment Fund (Strand 2) – Q2 2020/21 Grant Claim	●

Appendix A

Summary of audit assignments

24 March 2021

	Assignment	Assurance Level
16.	Accounts Payable - Feeder Systems	●
17.	Runcorn Locks Restoration Grant Claim 2020/21 - Q2	●
18.	Runcorn Locks Restoration Grant Claim 2020/21 – Q3	●
19.	Disabled Facilities Grant Claim	●
20.	Pewithall Primary School	●
21.	Ashley School	●
22.	Liverpool City Region Grant - Runcorn Station Quarter - Q3 2020/21	●
23.	Town Centre Fund Grant Claim – Halton Lea – Q3 2020/21	●
24.	Workforce Capacity Grant	●
25.	Infection Control Fund Round One – Tranche Two	●
26.	Infection Control Fund Round Two – Tranche One	●
27.	Skills Capital Investment Fund – Q3 2020/21 Grant Claim	●
28.	Covid Winter Grant Scheme – Interim Report	●
29.	Corporate Card Programme	●
30.	Rapid Testing Fund	●
31.	Financial Support to Adult and Social Care Providers - Covid-19	●

Appendix A

Summary of audit assignments

7 July 2021

	Assignment	Assurance Level
32.	Adult Social Care – Accounting for Covid	●
33.	Local Growth Fund (LGF) Grant - Silver Jubilee Bridge - Q3 & Q4 2020/21	●
34.	Test and Trace Support Payment Scheme	●
35.	Accounting for VAT	●
36.	Budget Monitoring Framework	●
37.	Liverpool City Region Grant - Runcorn Station Quarter - Q4 2020/21	●
38.	Skills Capital Investment Fund – Q4 2020/21	●
39.	Runcorn Locks Restoration Society – Q4 2020/21	●
40.	LCR Region Grant - Runcorn Busway Active Travel Corridor 2020/21	●
41.	LCR Grant – Transport Pipeline, East Runcorn Connectivity 2020/21	●
42.	Town Centre Fund Grant Claim – Halton Lea – Q4 2020/21	●
43.	Infection Control Fund - Round Two Tranche Two	●
44.	Rapid Testing Fund	●
45.	Workforce Capacity Grant	●
46.	Supporting Families Grant Claim	●
47.	Covid Winter Grant Scheme – Report Two	●
48.	Holiday Activities and Food Programme – Easter Support Scheme	●
49.	Hospitality & Leisure Support Grant & Hospitality, Leisure and Retail Grant (Expanded Scheme)	●
50.	Local Authority Day Care Provision	●
51.	Community Meals Service	●
52.	Homeworking	●

Appendix B

Summary of follow-up audit assignments

The Public Sector Internal Audit Standards require the 'chief audit executive' to establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. This process involves internal audit carrying out work to determine the progress that management has made in implementing recommendations previously agreed. A follow-up audit report is then issued summarising the results of this work.

Each follow-up audit provides an overall assurance opinion, which is based on the extent to which the risks identified in the original audit have been addressed. The following table summarises the results of the follow-up assignments completed during the year:

Assignment		Assurance Rating	Additional Commentary
1.	Halton Lodge Primary School	●	All issues from the original audit have been addressed.
2.	Street Lighting	●	All issues from the original audit have been addressed.
3.	Markets	●	All issues from the original audit have been addressed.
4.	Our Lady of Perpetual Succour	●	There was an out of date agreement in place with the pre-school operating from the school premises, which needs to be reviewed. As a result of the follow up audit the Head teacher contacted the Archdiocese to progress the issue in preparation for setting the budget for 2021/22.
5.	Foster Care	●	All issues from the original audit have been addressed.

Appendix C: Assurance Level Definitions

Assurance Level		Conclusions from Audit Findings
Limited	●	Improvements in procedures and controls are required to strengthen the management of risk(s) fundamental or material to the activities reviewed.
Adequate	●	In the main there are appropriate procedures and controls in place to mitigate the key risks to the activities reviewed. However, opportunities were identified to improvement the management of some risks.
Substantial	●	Effective procedures and controls in place to mitigate the key risks to the activities reviewed.