



Audit Committee

14 July 2021

Title	Annual Internal Audit Opinion 2020-21
Report of	Head of Internal Audit
Wards	Not applicable
Status	Public
Urgent	No
Key	Yes
Enclosures	Annual Internal Audit Opinion 2020-21
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Summary	

Each year the work of Internal Audit is summarised to give an overall opinion on the system of internal control and corporate governance within the Council. This is a requirement of the Public Sector Internal Audit Standards (PSIAs).

The Opinion covers the internal audit work completed delivering the 2020/21 audit plan to 31 March 2021, including the work completed more recently to complete the audits that were delayed due to the COVID-19 response.

The four possible ratings that can be given are:

Finding rating

No assurance

Limited assurance

Reasonable assurance

Substantial assurance

In 2020-21 the annual opinion overall is:

Reasonable assurance

This is consistent with 2019/20 and an improvement on the previous two years, 2018/19 and 2017/18, when Limited Assurance was given.

Due to the impact of COVID-19 throughout the year ended 31 March 2021, and the Council's priority being the delivery of critical frontline services, there was an impact in managing and closing out the delivery of some reviews in the period, as it affected the availability of audit stakeholders and also led to the redeployment of Internal Audit staff to support the delivery of front line services. A number of reviews scheduled to be finalised by 31 March 2021 were therefore completed in Q1 2021/22.

CIPFA issued guidance on Head of Internal Audit Opinions for 2020/21 in light of the impact of COVID; I have considered this and whether a 'Limitation of Scope' is required to the Opinion. I do not consider this to be necessary.

The plan agreed by the Audit Committee in July 2020 has been continuously revisited to confirm that audit resources were being used in the most effective and efficient manner. By year end, we were able to report that we had delivered 82% of the planned work programme, against the usual target of 95%. The two key factors behind this performance were (a) that we 'lost' 300 audit days due to in-house staff being redeployed and (b) audit fieldwork has generally taken longer due to service areas prioritising their COVID response work. At the date of this report, the % delivered and therefore reflected within the Annual Opinion is 90%.

The opinion is based on the following key factors:

- In March 2020 Finance undertook a self-assessment of their financial control environment by comparing/mapping expected control processes ('principle questions') to control processes in operation in LBB finance systems. The exercise covered control processes across all key finance functions. It was agreed at the time that Internal Audit would undertake a review later in the year to assess whether the identified controls were operating as expected. This work has now been completed and, although the scope of the reviews differed to in previous years,

in general the direction of travel on all the Key Financial Systems audits was either positive or stable; no deteriorations were noted.

- The performance on implementation of audit actions has improved in 2020/21; we were able to confirm that for the actions followed up, 95% that were due had been implemented by year end. This is above the target of 90% and is an improvement on the previous year when the outturn was 76%.
- Internal Audit has continued to work closely with the Council's Corporate Anti-Fraud Team (CAFT) during the year. As part of their work in response to COVID, CAFT reviewed 10,514 applications for COVID-related support from businesses prior to grants being paid, with a total value of £87m. We assisted by reviewing new procedures as they were developed e.g. for the administration of these grants.
- As part of the ongoing Post-Payment Assurance work required by BEIS over COVID grants paid to businesses, we are documenting the 'three lines of defence' over the grants paid out and undertaking retrospective spot checks.
- We have undertaken separate data analysis of payments made during COVID and did not identify any fraud.
- Although not all areas showed improvement (e.g. the percentage of positive audit reports - those receiving an overall rating of either "substantial" or "reasonable" – decreased from the previous year (80% in 19/20 and 72% in 20/21), on balance I am comfortable that Reasonable Assurance is a fair reflection of the control environment in operation at the Council.

The key findings from our audits have been grouped into four themes in the Summary of Findings section:

- Financial control and fraud risk;
- Compliance / Policies & Procedures;
- Roles and responsibilities and staff training; and
- Oversight and governance arrangements.

Detail on each of these areas is included within the main report on an exception basis.

Recommendations

- 1. That the Committee note the contents of the Annual Internal Audit Opinion 2020-21.**

1. WHY THIS REPORT IS NEEDED

- 1.1** The Audit Committee's role in receiving this report is to note the overall assurance given and to focus on the improvement areas noted as themes for 2020-21. This is as per the approved Workplan of the Audit Committee.

2. REASONS FOR RECOMMENDATIONS

2.1 As per the approved Workplan of the Audit Committee.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable.

4. POST DECISION IMPLEMENTATION

4.1 Not applicable

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 All internal audit and CAFT planned activity in 2020-21 was aligned with the Council's objectives set out in the Corporate Plan 2019-24, and thus supported the delivery of those objectives by giving an auditor judgement on the effectiveness of the management of the risks associated with delivery of the service.

5.1.2 The Annual Internal Audit Opinion informs the Annual Governance Statement that is also presented to this Committee.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 When risk, and assurances that those risks are being well managed, is analysed alongside finance and performance information it can provide management with the ability to measure value for money.

5.3 Social Value

5.3.1 Not applicable

5.4 Legal and Constitutional References

5.4.1 The Council also has a duty under section 3 of the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Regulation 6(1)(a) of the Accounts and Audit Regulations 2015 requires 'an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts (England)'.

5.4.2 The Council's Constitution, Article 7 states that the Audit Committee should:

'provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.'

5.5 Risk Management

5.5.1 All Internal Audit activity is directed toward giving assurance about risk management within the areas examined. By so doing the aim is to help maximise the achievement of the Council's objectives. Internal Audit does this by identifying areas for improvement and agreeing actions to address the weaknesses.

5.5.2 Internal Audit work contributes to increasing awareness and understanding of risk and controls amongst managers and thus leads to improving management processes for securing more effective risk management.

5.6 Equalities and Diversity

5.6.1 Effective systems of audit, internal control and corporate governance provide assurance on the effective allocation of resources and quality of service provision for the benefit of the entire community. Individual audits assess, as appropriate, the differential aspects on different groups of individuals to ensure compliance with the Council's duties under the 2010 Equality Act.

5.7 Corporate Parenting

5.7.1 None in the context of this report.

5.8 Consultation and Engagement

5.8.1 Not applicable

5.9 Insight

5.9.1 Not applicable

6. BACKGROUND PAPERS

6.8 [Audit Committee 28 April 2021](#) (Decision Item 10). – The Committee approved the Work Programme for July 2021 – February 2022, which included the Internal Audit Annual Opinion for inclusion at this meeting.