



Governance and Audit Committee

22 June 2021

Item

8

Report of	Assistant Director of Policy & Corporate	Author	Hayley McGrath ☎ 508902
Title	Head of Internal Audit Annual Report 2020/21		
Wards affected	Not applicable		

1.0 Executive Summary

1.1 The report set out in Appendix 1 summarises the findings of the Internal Audit function for the financial year 2020/21.

1.2 The key messages from the report are:

- Despite the impact of the pandemic the new Internal Audit contractor was able to successfully commence the service from 01 April and has ensured that an effective internal audit service was provided during the 2020/21 financial year.
- Twenty-five audits were completed during the year.
- Eleven audits (44%) achieved a substantial assurance rating (previously full assurance), compared to twelve last year (33%).
- The number of limited assurance ratings decreased to one (4%) from nine (24%).
- Three urgent recommendations were made (previously level 1), compared to twenty-one last year.

2.0 Recommended Decision

2.1 To review and comment on:

- Internal audit activity for the period 1 April 2020 to 31 March 2021.

3.0 Reason for Recommended Decision

3.1. The Accounts and Audit Regulations 2015 require that 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. Internal audit is a key element of the Council's corporate governance framework. Robust implementation of audit recommendations gives assurance to members and management that services are operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards.

4.0 Alternative Options

4.1 None.

5.0 Background Information

- 5.1 At the end of each financial year the audit provider produces a 'Head of Internal Audit Report'. This is the overall assurance rating for the Council and is the evidence that supports the assessment of the internal control in the Annual Governance Statement.

The report for 2020/21 states 'TIAA is satisfied that, for the areas reviewed during the year, Colchester Borough Council has reasonable and effective risk management, control and governance processes in place.'

- 5.2 2020/21 was the first year of the contract with the new provider, TIAA Ltd. The start of the contract was delayed by the pandemic and so far the auditors have not been able to meet officers on site. However, they have been able to complete the programme for 20/21, which was reviewed early in the year to ensure that it captured the emerging risks of the pandemic response. There have been no significant issues with the work undertaken by TIAA and it is felt that they have been able to establish a good working relationship with officers.
- 5.3 Each audit is given one of four assurance ratings – no, limited, reasonable and substantial – that indicates how well the system controls are working. The assurance rating is determined primarily by the number and level of recommendations made, which are classed as urgent, important or routine. The table in appendix 2 explains the assurance and recommendation levels in more detail.

6.0 Strategic Plan Implications

- 6.1 The audit plan has been set with due regard to the identified key strategic risks to the Council and the objectives of the strategic plan to be vibrant, prosperous, thriving and welcoming. Therefore, the audit work ensures the effectiveness of the processes required to achieve the strategic objectives.

7.0 Risk Management Implications

- 7.1 The failure to implement recommendations may have an effect on the ability of the Council to control its risks and therefore the recommendations that are still outstanding should be incorporated into the risk management process.

8.0 Environmental and Sustainability Implications

- 8.1 There are no environmental or sustainability implications as a result of this report.

9.0 Other Standard References

- 9.1 There are no direct Publicity, Financial, Consultation, Equality, Diversity, Human Rights, Community Safety or Health and Safety implications as a result of this report.

Key to Assurance Levels

Assurance Gradings

Internal Audit classifies internal audit assurance over four categories, defined as follows:

Assurance Level	Evaluation & Testing Conclusion
Substantial	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
Reasonable	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
Limited	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
No	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Recommendation Gradings

Internal Audit categorises recommendations according to their level of priority as follows:

Priority level	Definition
1. Urgent	Fundamental control issue on which action should be taken immediately.
2. Important	Control issue on which action should be taken at the earliest opportunity.
3. Routine	Control issue on which action should be taken.
OEM – Operational Effectiveness Matter	Items that would be best practise / improvements, but do not impact on the effectiveness of the controls.