

Subject	Internal Audit Annual Report 2021/22	Status	For Publication
Report to	Audit Committee	Date	28/07/2022
Report of	Head of Internal Audit, Anti-Fraud and Assurance		
Equality Impact Assessment	Not Required		
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1. Purpose of the Report

- 1.1 To report on the Internal Audit Team's completed assignments relating to the 2021/22 audit plan, agreed management actions and also the Head of Internal Audit's assurance opinion based on the work undertaken.

2 Recommendation

- 2.1 ***Members are recommended to consider and receive the report.***

3. Background Information

The Audit Committee has responsibility for reviewing the adequacy of the Authority's corporate governance arrangements, including those relating to internal control and risk management. The reports issued by Internal Audit are a key source of assurance contributing to the evidence the Committee receives to assure them that the governance, risk and internal control environment is adequate and operating as intended.

At the end of the financial year, the Head of Internal Audit, Anti-Fraud and Assurance produces his Annual Report, which provides his overall opinion on the adequacy of the Authority's governance, risk and internal control environment and compliance with it during the year.

4. Implications

- 4.1 The proposals outlined in this report have the following implications

Financial	The cost of the services of the Internal Audit Team is contained within the budget and is periodically invoiced.
Human Resources	n/a
ICT	n/a
Legal	Section 73 of the Local Government Act 1985 requires the Authority to make arrangements for the proper administration of its financial affairs; and Regulation 6 of the Accounts and Audit Regulations 2015 requires the Authority to maintain an adequate and effective system of Internal Audit of its accounting records and of its system of internal control.

	This report does not contain any information which is exempt under the Freedom of Information Act 2000.
Procurement	n/a

Rob Winter FCPFA

Head of Internal Audit, Anti-Fraud and Assurance

Background Papers	
Document	Place of Inspection
Background papers and other sources of reference include: Internal Audit Charter 2021-24, Annual Plan 2021-22, Individual Internal Audit Reports, MK Insight (Audit Management System), Public Sector Internal Audit Standards 2017	Barnsley Metropolitan Borough Council, Westgate Plaza, Barnsley.

South Yorkshire Pensions Authority

Internal Audit Annual Report 2021/22

Audit Committee

28th July 2022

The matters arising in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

INTERNAL AUDIT ANNUAL REPORT 2021/22

Purpose of this report

To report on the Internal Audit Team's completed assignments relating to the 2021/22 audit plan, agreed management actions and the Head of Internal Audit's assurance opinion on the Authority's internal control, risk management and governance arrangements based on the work undertaken.

Background

In accordance with statutory best practice provided by the Public Sector Internal Audit Standards (PSIAS), there is a requirement that the Head of Internal Audit (HoIA) prepares an annual report to the appropriate member body providing, amongst other things, an opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and internal control based on the audit work undertaken. For the Authority, the appropriate member body is the Audit Committee.

The Accounts and Audit Regulations require all local authorities to publish an Annual Governance Statement (AGS) providing a narrative on the Authority's internal control, risk management and governance framework, the results of the annual review process and detailing any actions to be taken in respect of any identified weaknesses. The AGS will address all aspects of corporate governance including internal control and risk management arrangements, in addition to financial controls.

This report provides a summary of key issues arising from the work of Internal Audit covered in the 2021/22 audit plan and up to the point of preparing this report, which contributes to the overall assurance opinion the HoIA is able to give the Audit Committee. The work of Internal Audit has been undertaken throughout the year with no impairment to our independence or objectivity.

Although providing an important and significant contribution to the assurances the Audit Committee needs in its consideration of the AGS, this report forms only part of the assurance framework. The Audit Committee will receive the Annual Governance Statement for 2021/22 at the July meeting. The Audit Committee are therefore encouraged to consider this annual report in the context of broader sources of assurance.

The financial budget for the Internal Audit Team is clearly set covering the period 1st April to 31st March each year and a plan of the days and where they are planned to be delivered is prepared similarly. However, the actual delivery of internal audit work and the constant review and revision of coverage is on a more rolling basis. In order to align the annual Internal Audit report to the AGS and the signing of the Statement of Accounts it is more appropriate that the Head of Internal Audit's opinion is provided reflecting all the work undertaken at the point of the approval of the AGS and Accounts.

Head of Internal Audit's Indicative Opinion on the Effectiveness of the Authority's Governance, Risk and Internal Control Environment

The Audit Committee has received quarterly reports throughout the audit year. In each of these reports a **reasonable** assurance opinion had been given reflecting on a quarterly basis an overall satisfactory level of internal controls and their application and also satisfactory governance and risk arrangements.

Taking the whole year into account, the audits completed, it is appropriate to give an overall **reasonable** (positive) assurance opinion for the year. The information supporting this opinion is provided below.

The general financial pressures on the public sector (particularly following the impact of the Covid 19 pandemic) coupled with significant legislative and organisational changes in the pension's arena will in turn place pressure on the capacity of senior management that if not managed

effectively could give rise to threats to the effectiveness of the control, risk and governance framework. The Authority's Senior Management Team will need to remain focused on maintaining a sound internal control, risk and governance framework – i.e. 'staying safe' in 2022-23 and beyond. The 2022-23 Internal Audit Plan aims to support the Authority and Senior Management through this period as well as focus on particular areas of activity and responsibility identified as higher risk.

Internal Audit is conscious of the extent and nature of overall scrutiny, oversight and challenge the Authority is subject to. Of particular importance is the good and effective working relationship between Internal Audit and senior management and other managers, to ensure an efficient audit is delivered and resources are directed to the most important areas of risk.

Although audit work aims to cover a broad range of services, systems and areas of Authority activity, it needs to be recognised that Internal Audit coverage cannot guarantee to detect all errors, systems or control weaknesses or indeed identify all of the opportunities for improvements in management arrangements that might exist. Accordingly, the assurance opinion provided is based on reasonable coverage, as resources allow, and cannot be regarded as absolute assurance. Equally, there is a responsibility of senior managers through the annual governance statement process to provide assurances to the Fund Director regarding the application and effectiveness of the internal control and governance framework in their operational or functional areas.

To remind the Committee, Internal Audit assurance opinions are classified within a range of four options, two positive and two negative. The table below shows in broad terms the basis for the different opinions applied.

	Level	Control Adequacy	Control Application
POSITIVE OPINIONS	Substantial Assurance	A robust framework of controls exists that are likely to ensure that objectives will be achieved.	Controls are applied continuously or with only minor lapses.
	Reasonable Assurance	A sufficient framework of key controls exists that are likely to result in objectives being achieved, but the control framework could be stronger.	Controls are applied but with some lapses.
NEGATIVE OPINIONS	Limited Assurance	Risk exists of objectives not being achieved due to the absence of key controls in the system.	A significant breakdown in the application of key controls.
	No Assurance	A significant risk exists of objectives not being achieved due to the absence of controls in the system.	A fundamental breakdown in the application of all or most controls.

Internal Audit seeks to work closely as appropriate with other auditors, most significantly External Audit. However, for 2021-22, no work undertaken by other auditors or any other review body has been specifically relied upon in the provision of this annual assurance opinion.

Summary of Internal Audit Work and Coverage 2021-22

Internal Audit aims to utilise a risk-based approach to planning its work. This approach seeks to ensure that the key risks facing the Authority are covered where appropriate by Internal Audit work. Internal Audit was able to use the Strategic and Operational Risk Registers to contribute to the planning of audit coverage. The audit planning process and details of the 2021-22 audit plan were reported to the Audit Committee in the March 2021 meeting.

The Audit Committee has received quarterly reports that incorporate the results of audit work and management’s response on a continuous basis. A summary of the Internal Audit reports for 2021-22 is at Appendix 1.

At the beginning of the year provision is made in the allocation of audit resources for unplanned work, through a contingency. As requests for Audit work are received, or more time is required for jobs or changes in priorities are identified, time is allocated from this contingency.

It should also be noted that Internal Audit work is variable both in its nature and timing. The risk-based approach aims to ensure the highest priority work is undertaken. As with all plans, the audit plan was determined at a particular point in time (March 2021) utilising information available and has been subject to changes in certain areas. The Audit Committee should be assured that within the finite resources available to Internal Audit, the key audit risks identified have either received audit attention during the year or are reflected in the audit plan for 2022-23.

2021-22 Internal Audit Plan Progress

The following table shows the delivery of the internal audit planned days for 2021-22 (incl. days spent on completing 2020-21 work in Q1 of the financial year), with a breakdown per Service Area. A further table confirms the number of planned assignments for the 2021-22 planned days and those completed at the time of drafting this report.

As at financial year end, we had delivered 85% of the planned days (7% of the planned days remained in contingency i.e. unallocated at year end). All 15 formal audit reports have now been completed (as in previous years, a small number of reviews were finalised during quarter one of 2022-23). The majority of work was scheduled to be undertaken towards the end of the financial year and Internal Audit profiled their resources to ensure the 2021-22 Pensions Authority plan was delivered at the time of drafting this annual report.

Four reviews were deferred into 2022-23, these being Procurement Compliance, Post Implementation Review of the Financial Management System and also the Pensions Admin System and a Business Continuity Planning review.

Delivery of 2021-22 Plan – Audit Days Delivered as at 31st March 2022

	Original plan days	Revised plan days	Actual days (% of revised days)
Finance	82.5	114.5	104 (91%)
Pensions Admin	37.5	28.5	24 (84%)
Investments	0	0	0
Authority Wide	87	61	55 (90%)
Corporate Services	30	20	22 (110%)
Contingency	4	17	0
Chargeable Planned Days	241	241	205 (85%)

Delivery of 2021/22 Plan – Planned Assignments Delivered as at 26th June 2022

	Planned Assignments	Actual Assignments Completed
Finance	7	7
Pensions Admin	5	1
Investments	0	0
Corporate Services	1	1
Authority Wide	3	2
	16	15*

* Advice continues to be provided in relation to the DPIA Process (Authority Wide).

Summary of Governance, Risk and Internal Control Issues Arising from Internal Audit work in 2021-22

Internal Audit has completed 10 individual reviews of aspects of the Authority's governance, risk and internal control framework during 2021-22 that resulted in a formal report. These audits sought to identify, test and review various controls to ensure management were meeting their responsibilities to establish and adhere to appropriate systems of internal control.

A summary of the assurance opinions given for the 10 reports issued, where an assurance opinion was provided, are shown below together with a comparison to 2020/21 and 2019/20.

Assurance Opinion		2021/22 Completed		2020/21		2019/20	
		No	%	No	%	No.	%
Positive Opinions	Substantial	5	50%	6	40%	1	14%
	Reasonable	5	50%	8	53%	4	58%
Negative Opinions	Limited	0	0%	1	7%	2	28%
	No Assurance	0	0%	0	0%	0	0%
TOTAL		10	100%	15	100%	7	100%

Across the various completed pieces of work 18 implications were reported and management actions agreed. These are summarised below:

AMA Category	2021/22		2020/21		2019/20	
	No	%	No	%	No	%
High	1	6%	0	0%	0	0%
Medium	9	50%	19	70%	18	56%
Low	8	44%	8	30%	14	44%
Total	100	100%	27	100%	32	100%

One high categorised management action was made in relation to the Data Quality Improvement Plan (which has now been implemented), with the remainder being categorised as medium (50%) and low (44%) priority. In all cases, management have agreed to

implement the required actions and set timescales for implementation. Although there has been significant pressure on management throughout the year and across all services, Internal Audit has continued to get good co-operation from management across the Authority and at various levels.

Details of the key issues arising from these reviews have been presented to the Audit Committee in the quarterly reports.

As stated in the quarterly reports it is important to note that the identification of control weaknesses does not necessarily indicate that any loss or inefficiency has actually occurred. Weaknesses indicate an increased *potential/risk* that losses or inefficiencies could occur.

An important part of Internal Audit's assessment of controls is undertaken through the annual reviews of the core financial systems of the Authority. This work is considered by External Audit who have regard to Internal Audit's work to assist in their opinion on the financial systems for their audit of the Accounts.

Internal Audit monitors the implementation of management actions. The progress is reported to the Audit Committee via the quarterly reports. These include the priority level and status of newly added management actions. As at 6th June 2022, there were twelve management actions that remained outstanding six months after the original agreed implementation date and/or that had 3 revisions to the original agreed implementation date. Refer to Appendix 2.

The timeliness of when management implement their agreed actions has been generally satisfactory throughout the year, with reasons provided where original agreed dates have not been met and revised dates provided.

Other Internal Audit work undertaken

Audit Activity	Description
Follow-up of Agreed Management Actions	Regular work undertaken to follow-up of agreed management actions.
Liaison, Planning and Feedback	Meeting and corresponding with Senior Management regarding progress of audit work, future planning and general client liaison.
Advice	General advice to services regarding controls, risk or governance matters.
Advice – DPIAs and Retention Policy	Provision of advice during the review and establishment of policies, systems and processes.
Project Support – Financial Management System	To provide advice and support to the Project Team during the design and implementation stages.
Audit Committee Support	Time taken in the preparation of Audit Committee reports, Member training (where required), general support and development.
NFI	Time allocated to undertake the National Fraud Initiative data matching exercise.
AGR/AGS Process	Independent review of the Officer Assurance Statements completed by SMT and the draft AGS.