

Daventry District Council

Annual Audit Review 2020/21

1. Purpose of Report

This Annual Audit Review is presented in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and the associated Local Government Application Note (LGAN).

2. Introduction

2.1 The PSIAS and LGAN require the Chief Audit Executive (the Internal Audit Manager) to produce a formal annual report to the Corporate Governance Committee timed to support the Council's Annual Governance Statement. The report covers the following aspects:

- A summary of the performance of the Internal Audit Service against its performance measures and targets including results of its quality assurance and improvement programme.
- Conformance with the PSIAS (the Standards) and progress against any associated improvement plan.
- Provides an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and internal control environment.
- A summary of the work that supports that opinion including a comparison of work carried out with that planned.
- Discloses any qualification to that opinion and the reasons for it.
- Draws attention to any issues which are particularly relevant to the preparation of the Annual Governance Statement.

3. Information

3.1 The Annual Audit Plan for 2020/21 was endorsed by the Senior Management Team (SMT) and the Executive Director (Finance), as Section 151 Officer, and approved by the Corporate Governance Committee in May 2020.

Performance & Delivery of the Audit Plan

3.2 The Internal Audit Service Plan contains a set of key performance indicators which were originally developed in consultation with key stakeholders and for 2020/21 were agreed with the Executive Director (Finance) during the annual planning and appraisal process. In-year progress against the targets were discussed with the Executive Director (Finance) at monthly 1-2-1 meetings. Some indicators are events which are required to take place during the annual cycle with others more measurable as the year progresses. The Service Plan sits alongside the Audit Plan and together with the quality assurance and improvement programme helps demonstrate the effectiveness of the audit process.

3.3 The 2020/21 results for those measurable indicators are contained in the table below (with 2019/20 for comparison):

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Description	2019/20		2020/21	
	Target	Actual	Target	Actual
Productive days made available for the Internal Audit Service	460	415	477	478
Productive (chargeable) days as a % of total days available	87%	84%	86%	84%
% Completion of Planned Audits	90%	89%	90%	73%
% of audits completed within 15% variance of allocated time	70%	64%	70%	67%

- 3.4 In terms of resourcing the 2020/21 audit plan, the original plan was devised on the basis that no resource issues were apparent that would impact on its delivery. To enable the true impact from the Covid-19 pandemic, it was determined that the audit plan would not be substantially revised during the year.
- 3.5 As a consequence the contingency which was built into the original plan was completely utilised. A summary of the Covid-19 impact on audit resources which was calculated at the end of December 2020 is shown below.

Redirection of IA Resources	Days
Temporary redeployment of the Senior Internal Auditor to the Finance Team to help administer Phase 1 - Business Support Grants	22.75
Covid-19 - Advice & support (fraud & audit) to management and officers but principally pre & post-assurance for the Business Support Grants	115.25
Covid-19 - Non-effective time operationally as a result of impacts such as lockdown / working from home arrangements, external IT downtime etc.	17.50
Total Days	155.50

- 3.6 The total days redirected as of December represented 0.60 full time equivalent (FTE) of a member of staff which when compared with the total of 3.22 FTE for the Internal Audit Service is a sizeable impact.
- 3.7 As a result of this impact a decision with the Executive Director (Finance) was made to increase the hours of the Corporate Fraud Officer to full time from the beginning of December to support the Business Support Grants process and free up the internal auditors to concentrate on delivery of audits in the plan. This provided for an additional 38 days up to the end of March 2021.
- 3.8 Of note, an additional activity was also absorbed into the service which gained momentum over the course of the year. As part of the Future Northants (FN) programme it was decided amongst the Northamptonshire Chief Executives together with the DDC Executive Director (Finance) & FN Finance Enabler that

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all significant procurements would be subject to the same rules as are contained in this Council's Constitution (Part 6F - Contract & Procurement Regulations), which includes the requirement for an audit review prior to contract award to provide additional assurance around the procurement process. The total time associated with this activity amounted to 28.50 days across ten different projects, as detailed in appendix A, with advice provided to officers on other FN procurement activities to ensure compliance.

- 3.9 As a result of the significant impacts on resources the Internal Audit Service had to adopt an agile approach to providing assurance and advice to management on governance, internal controls, and fraud prevention. Whilst the 2019/20 work was satisfactorily completed in the very early part of the year, the events which impacted on audit resources led to some deviation from the original 2020/21 plan which was acknowledged by Members when it was approved, and subsequently at the progress meetings in September 2020 and January 2021.
- 3.10 The cancellation or deferral of some audits to the new authority has been inevitable with decisions being made as to what work would be undertaken based on risk, events arising from the Future Northants programme, but ultimately in ensuring sound advice and assurance was provided to management in a timely fashion, made more difficult as vesting day approached.
- 3.11 The impact on audit resources resulted in the following audits being cancelled / postponed:
- Human Resources / People Management - although a specific audit covering various management and employee related activities has not taken place, audit advice was provided on some related activities during the pandemic such as temporarily revised procedures.
 - Planning Obligations (Community Infrastructure Levy) - although last audited in 2016/17 the results from that audit led to greater transparency and governance which continued to be provided by the Resources Working Group in terms of financial control and monitoring.
 - Leisure Services SLM - to be considered as part of the audit plan for West Northamptonshire Council (WNC).
 - Payroll - management were closely involved in the migration of payroll data across from Firefly (contracted provider) to the new Council. As a result of prioritised resource for dealing with this it was agreed with management to defer the audit to WNC. Historically this area is audited annually resulting in a good assurance opinion.
 - IT Cyber Security - despite numerous attempts with our contractor to get this audit off the ground in the last quarter, it eventually proved impractical given the ever-increasing priorities of the ICT Manager as vesting day approached. Further comment is provided in section 4.29.
- 3.12 The following audits were partially completed by the end of March and despite attempts to complete this work post-vesting day, this proved difficult and beyond our control given the change in management and some officer responsibilities:
- Debtors
 - Income Receipting

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Historically both systems have demonstrated a strong control environment and our evaluation of both areas confirmed the design of such controls remained the case. We were unable to complete testing of these areas to establish whether there was effective application of those controls. In respect of sundry debtors, it is widely acknowledged that the impact of the pandemic has adversely affected the recovery of debts. Further comment is provided in section 4.11.

- 3.13 Conversely because of emerging risks (non-Covid-19 related) two audit areas were added to the plan as they required management assurance and/or consultancy advice:
- Acquisition of Properties for Temporary Accommodation- a new project and significant funding was approved by Council during the year. At the request of the Executive Director (Finance) as Section 151 Officer, an audit was undertaken to provide assurance to senior management as to the adequacy and appropriateness of the controls and processes in place for its delivery.
 - Travellers Emergency Stopping Places - Income & Deposits - internal control advice was provided to management to enable effective procedures to be put in place, prior to formal submission by management to the Executive Director (Finance) for acceptance.

Stakeholder and Customer Feedback

- 3.14 Customer feedback is received at two levels, audit assignment and service delivery. In respect of the former, although feedback was rather limited from post-audit questionnaires, continual liaison did take place with all levels of management with any matters being positively responded to, either in respect of an individual auditor's performance or from consideration of improvement to the audit engagement process.
- 3.15 In respect of service delivery, feedback is normally requested annually from stakeholders (i.e. Members of this committee) and customers (i.e. management). Given the turbulent year and re-directed priorities of both management and staff, particularly as the new unitary authority approached, no questionnaire was sent out. However, as this is the last annual report for this Council it is worth reflecting on the highly satisfactory results received over the years with Members and management continually agreeing or strongly agreeing that Internal Audit is provided an effective service to the Council, and it was of note that last year this was achieved for the 10th year in a row (since the measure was first introduced).
- 3.16 To help new service managers to the authority in their understanding of Internal Audit's role and how control, risk and governance relates to their service area, a short face-to-face induction takes place, normally within the first three months of them starting. Management have been very appreciative of this opportunity as it helps them to bridge any gap in their knowledge on the governance framework. The positive effect of these interactions helps to foster a good working relationship where management actively seek out internal audit advice and are not afraid to bring matters of concern to our attention.
- 3.17 During the course of the year the Council's external auditors, Ernst & Young, have been able to place reliance on the outcomes from Internal Audit's work to support their audit of the Council's financial systems and accounts, and those

systems supporting the governance framework. Any adverse audit results are reported to them for their consideration within their scope of work.

Independence & Objectivity

- 3.18 In seeking to provide an independent and objective opinion for the financial year it is confirmed to management and Members that the Internal Audit Service has remained free from interference in relation to matters of audit selection, scope, procedures, frequency, timing, or reporting.
- 3.19 Whilst the Internal Audit Manager is responsible for managing the Corporate Fraud Officer, their work and those responsibilities placed on the Internal Audit Service complement each other by examining and mitigating risks to the authority and by identifying improvements to the internal control environment. It is therefore considered that this does not compromise the independence of the Internal Audit Service or impair any judgements it makes.

PSIAS conformance and service improvement

- 3.20 The Internal Audit Service continued to maintain a comprehensive management and review process for each audit engagement. An audit process checklist provides assurance that each of the key stages of the audit is properly completed to the required standards and is supported by a working file protocol to ensure complete records are maintained. Management reviews took place at critical points in the process. Each review requires the Internal Audit Manager to record an explanation for any gaps in the coverage specified in the audit engagement brief, to endorse or comment upon the standard of quality assurance delivered by the auditor and to identify any issues judged likely to be relevant to the Internal Audit opinion. Furthermore, continuous improvement in the service and its practices also comes from career professional development, liaison with peer groups such as the Midlands Audit Group, and from best practice research.
- 3.21 Our quality assurance and improvement programme included a continual self-assessment of our service against the professional standards to identify any gaps in conformance and areas for improvement. During the Covid-19 pandemic we continued to maintain our standards and processes despite the challenging working conditions of staff remote working. Minor changes were made to processes to help maintain an effective audit approach and ensure the requisite evidence is obtained in support of our work.
- 3.22 An External Quality Assessment (EQA) is required to be undertaken once every five years, as a minimum. The last EQA was undertaken by CIPFA in 2017, with no action remaining.
- 3.23 As the Internal Audit Service was part of the organisation it was required to periodically review and maintain a host of plans and registers. Assessments undertaken in support of the service, included aspects of service, information, health & safety and fraud risk, and an assessment of equality impact.

- 4 Opinion on the overall adequacy and effectiveness of the control environment drawing attention to any issues particularly relevant to the preparation and review of the Annual Governance Statement (AGS)**
- 4.1 As has already been stated, this Annual Audit Review is one of the elements used to support the AGS. Since it is not viable for any organisation to allocate the resources that would be necessary for an internal audit function to audit the whole control environment each year, it is not possible to give “absolute” assurance about the effectiveness of all control systems within the Council. Instead, internal audit can provide a “reasonable” assurance about the control environment, so that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or detected in a timely manner.
- 4.2 Responsibility for effective governance, risk management and internal control arrangements remain with management and not Internal Audit who cannot be expected to prevent or detect all weaknesses or failures in internal control nor can the internal audit plan cover all areas of risk across the organisation.
- 4.3 The Chief Executive and all Members of the Corporate Governance Committee formally received all finalised audit reports. The Chief Financial Officer received all reports of a financial nature. The Senior Management Team (SMT) is requested to pay particular attention to those audits receiving a “minimal assurance” opinion or any of corporate significance. In such cases, the SMT considers management’s response and determines whether any further action or reporting back on progress is required.
- 4.4 During the year, management continued to monitor the outstanding recommendations on the corporate register of management (audit) action plans at Executive Director 1-2-1s with the Deputy Chief Executive, and during meetings of the Risk Management Working Group. This reporting is further enhanced with a separate list of all outstanding “high priority” recommendations to ensure management are giving them due consideration, and the ICT Steering Group also receives a separate IT-centric report. In addition, meetings were periodically held between the Internal Audit Manager and the Chief Financial Officer to discuss relevant aspects of financial control and governance. In the main Service Managers promptly implemented recommendations as agreed and provided regular updates on progress.
- 4.5 In line with the audit reporting protocol, each formal audit issued to management is given an assurance opinion based solely on our assessment of the adequacy, effectiveness, and operation of the internal control environment in that area to mitigate risks, and reduce inefficiencies, fraud and error etc. It is not an opinion on the performance of the service. For example, the Council may well have a service that is hitting or exceeding its performance targets and receiving good customer feedback. However, if there are fundamental controls that are either not fit for purpose or are not being adequately applied, then this will have a significant adverse effect on the audit opinion given.

Assurance opinions are classified as:

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<p>Full Assurance - There is an adequate and effective system of risk, governance and control in place designed to achieve the system objectives. Controls are being consistently applied.</p>
<p>Substantial Assurance - The majority of controls are in place and operating effectively, although some control improvements are required to enhance the adequacy and/or effectiveness of the risk, governance and control environment. There is some risk that system objectives may not be fully achieved.</p>
<p>Limited Assurance - Certain important controls are inadequate or are in place but not operating effectively. There is considerable risk that the system may not meet its objectives. Significant improvements are required to improve the adequacy and effectiveness of the risk, governance and control environment, and to be able to place reliance on the system for corporate governance assurance.</p>
<p>Minimal Assurance - The majority of controls are weak, not present or failing to the extent that there is a real and substantial risk that the system will fail to meet its objectives and may result in material error / loss or reputational damage occurring. Immediate action is required to improve the adequacy and/or effectiveness of the risk, governance, and control environment. Such assurance matters will be reported to the Corporate Governance Committee.</p>

- 4.6 Based upon the work undertaken and that summarised in Appendix A, it is my opinion that the overall adequacy and effectiveness of the Council’s control environment for 2020/21 is assessed as giving “**Full to Substantial Assurance**”. This rating is largely based on the scale used above.
- 4.7 The table below includes a breakdown of the audit assurance opinions given over the past three years plus the reporting year, summarily represented in an assurance ratio indicator, with two other indicators assessing management’s response to implementing recommendations. These indicators are used to monitor the trend and impact on the control environment and provide Members and senior management with a “barometer”.

LEVEL OF ASSURANCE *	2017/18	2018/19	2019/20	2020/21
Full	13	15	17	17
Substantial	21	23	12	5
Limited	1	3	1	0
Minimal	0	0	2	0
Full/Substantial: Limited/Minimal assurance ratio split Target = 80:20	97:03	93:07	91:09	100:00
% of agreed recommendations implemented that are	80%	90%	100%	100%

categorised as “high priority” Target = 90%				
% of all agreed recommendations implemented	98%	79%	97%	95%

*Note: It should be noted that an opinion is not provided for every audit. Some audits have limited or non-specific coverage or were closure of long outstanding matters, and as a result a revised formal opinion is not appropriate. Therefore, the total figure may not correspond exactly to the number of audits completed in the year.

- 4.8 Details of the work undertaken during 2020/21 and the outcomes and assurance opinions given for those audits are contained in Appendix A. The first part of the appendix includes a summary of the number of recommendations raised at the point of the original audit and where applicable those remaining following completion of a formal follow up. The figure in brackets indicates the number of high priority recommendations. In addition, a separate schedule similar to the one periodically received by management has been provided in the second part of the appendix detailing those audit management action plans which remained outstanding as at 10/05/2021, together with a brief description of any high priority recommendations. Supporting information regarding the outstanding matters has been passed to the Shared Service Head of Internal Audit for their consideration in reporting on to management of the new unitary authority.
- 4.9 In respect of the assurance opinion ratio, the performance has been at or above target for the ninth consecutive year. This overall position is testament to management’s efforts to maintain and improve the internal control environment over time. To contrast and compare the position of over a decade ago the 2008/09 assurance ratio was 52:48 (which included 22 limited and 7 minimal), with a 42% rate for the implementation of high priority recommendations.
- 4.10 In respect of the “recommendations implemented” indicators are calculated each quarter on a rolling 12-month basis to provide management with a comparable on-going trend. The end of year position shown is again very favourable and clearly indicates that no apathy has crept in during the pandemic and with the diversion of resources and attention in preparing for the unitary authority.
- 4.11 During the financial year no audits received a “minimal assurance” opinion and no matters remained outstanding from the Annual Audit Review for 2019/20. However, matters of corporate significance and worthy of highlighting in this report are as follows:
- **Service Inventories** - arising from the Creditors & GPC audit.
During the year Finance Officers track spend on certain accounts and send quarterly reminders to service areas to add relevant items to their office inventory. Whilst making enquiries regarding this action we identified that service area inventories had not been requested or submitted to the Corporate Custodian in 2020/21, due to the lockdown happening in March 2020. Further enquiries established that most team / service inventories had not updated their inventories in the last 12 months.

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A significant increase in spend on office and IT equipment, the majority for home or mobile working, has been observed during the year on GPC card spend. As many of the items purchased by service areas are small portable items, for example laptops, webcams, cameras, monitors, etc., there is a risk that they will not have been recorded as required by the Inventory Office Instruction and as per Financial Regulations (ref: 12. Inventories and Assets), and items may be lost to the business, more so considering the move to the new authority. Although IT Services acknowledged that they would have records of equipment purchased they in no way maintain any record on its future whereabouts.

This matter was also considered a breach of the Constitution and was reported to the Monitoring Officer (and Chief Financial Officer) on 25/03/2021 for their consideration / response. The Monitoring Officer acknowledged the breach but given the little time left before vesting day and an expectation that that at some stage West Northamptonshire Council would likely follow up on the issue, he was only able to issue a message to service and senior management to strongly encourage them to get the inventories up to date at the earliest opportunity. A similar message was also issued by the Corporate Custodian for inventories to be updated by the end of April.

- **Debt Recovery - Council Tax, Business Rates & Sundry Debtors** - Our audit plan routinely includes annual audits of these financial areas. Although our evaluation of controls and testing remained unchanged from previous audits providing good assurance, we were unable to test the effectiveness of the arrangements for the recovery of debt through to legal / enforcement action because of the pandemic and the economic slowdown, understandably affecting people's ability to pay.

During the year and largely affected by the periods of lockdown, no reminders, final notices, or summonses were issued for Council Tax and Business Rates, and beyond the initial reminder stages for sundry debtors all further recovery action was put on hold. Nationally, enforcement agent's activities were curtailed, and all Court hearings were suspended by the Magistrates.

Analysis undertaken nationally has seen a sharp increase in tax arrears with council tax for 2020-21 reportedly at £4.4bn, an increase of 25% on the previous year, and business rates at £2.5bn, a rise of 75% on the £1.4bn reported by the MHCLG in 2019/20.

From a control and management perspective the resultant backlog in arrears in normal times would be a significant task to get back on track but given the formation of the new unitary council and the change this has brought about, resourcing and effectively managing the way forward will need to carefully be considered. In respect of sundry debtors, it is understood that legacy debt remains within the same IT systems that were administered by the sovereign councils and for the time being this will remain the case, whilst new unitary debt is being managed by an external shared service arrangement administered by Cambridgeshire County Council. Therefore, management will have to maintain existing practices and processes. From an audit perspective Members can be assured that this aspect is receiving our attention as part of a schedule of financial work in the first part of the financial year agreed with the Section 151 Officer.

Response to the Covid-19 pandemic and the internal control environment

- 4.12 From the outset of the pandemic the Internal Audit Service worked closely with management to ensure the control environment was not being compromised. An early communication from the Chief Financial Officer to senior management was issued to assert the expectation that management should work with Internal Audit on any revised practices and procedures. This message was reaffirmed by the Monitoring Officer and was positively received by management. Subsequently Internal Audit received numerous requests for audit advice including the consideration of any revised financial processes which were all signed off by the Chief Financial Officer before being adopted.
- 4.13 Internal Audit also issued separate advice to service management on “Fraud Control in Emergency Management” (guidance from the Cabinet Office) which highlighted the risk of fraud during such times and suggested controls that could be used to reduce the threat. This was expanded upon for local circumstances where the need for staff to be vigilant was expressed whilst they worked in different ways, invariably from home, and emphasised the risks this posed including phishing attempts (where IT Services have been excellent in making staff aware) and from social engineering (by manipulating staff to give up confidential and/or personal information). We also conveyed the desire for management to introduce low-risk fraud controls and checks into processes where they are being undertaken differently, particularly around application forms and payments.
- 4.14 The Internal Audit Service also provided direct support to the Finance Team in the delivery of business support grants, including pre/post-payment assurance checks, with this work continuing into 2021/22.
- 4.15 In terms of the context across the public sector and other sectors, the professional bodies such as the Chartered Institute of Public Finance Accountants (CIPFA) and the Institute of Internal Auditors (IIA) advised its members accordingly during the year with guidance from CIPFA issued to address the risk of any limitation of audit scope which may affect the head of internal audit’s annual opinion. Similar experiences to that at Daventry have been observed at those authorities in the Midlands Audit Group and anecdotally some audit teams had a significant diversion of audit resources.

Assurance on council services provided by others

- 4.16 As part of the audit planning process we consult with management to identify where they obtain their assurance on controls and risks in respect of services provided to the Council by others, either contractually or through partnerships. To help avoid duplication we also contact the respective Internal Audit teams within the organisations where these services are provided to establish when they last undertook audit work in these and when they next planned to, if at all.
- 4.17 Notable assurance work undertaken during 2020/21 includes the following:
- Rainsbrook Crematorium operated in collaboration with Rugby BC - a follow up of the actions arising from the 2019/20 audit was undertaken with one

matter remaining in respect of Rugby BC maintaining an inventory. Further comment is provided at the end of appendix A.

- West Northamptonshire Joint Planning Unit - the Internal Audit Service provides annual assurance to those partners who financially support the unit. Whilst the 2020/21 resulted in an audit opinion of full assurance, there remained partially implemented two matters from the 2019/20 audit around review and update of the risk register and the documentation of key processes. Both matters were expected to be fully in place by the end of the financial year. It should be noted that the delay in their implementation did not compromise the continued integrity of the function and its administration.

Corporate Risk Management Arrangements

- 4.18 Under the Council's risk policy a member of the Corporate Governance Committee takes the role of Member "Risk Champion" (currently the Chairman). It is the role of this committee to review the effectiveness of the Council's risk management arrangements. To facilitate this role, it is necessary for the committee to receive periodical reports from management:
- To provide the committee with details of the key risks faced by the Council and how the Council is managing the corporate risks.
 - To report on the development of the Council's risk management approach during the financial year; and
 - To identify proposed developments in risk management going forward.
- 4.19 The Risk Management Group has been active in ensuring a co-ordinated, consistent and effective corporate approach to risk management. During the year, the Group has notably dealt with:
- Review of the Council's Strategic Risk Register and consideration of it by the Senior Management Team took place on numerous occasions throughout the year.
 - Identification and consideration of new business risks including liaison with the Resources Working Group in respect of financial risks to the authority and the ICT Steering Group in respect of ICT risks.
 - Monitoring of the Projects Progress Register which is reported on to the Portfolio Holders Group.
 - Reviewed and revised its terms of reference to maintain currency.
 - Routinely reviewed progress and activities in respect of business continuity planning including update of the Business Continuity Plan and discussion on the impacts the Covid-19 pandemic.
 - Close monitoring and review of Internal Audit management action plans to assess management's focus on implementing outstanding audit recommendations, in particular those of high priority.
 - Monitoring of progress towards implementation of the Significant Partnerships Action Plan. This plan takes account of the results of the annual review of partnerships undertaken by management in accordance with the Council's Partnership Toolkit.
 - Discussion on areas subject to audit to discuss aspects of control and risk not previously considered.

- 4.20 A comprehensive and unified process was in place to monitor risks at all levels of the authority involving both Members and officers. These arrangements included:
- Regular review of risk management at Executive Director / Deputy Chief Executive Liaisons, and service risk logs (service/operational, information, fraud) at Executive Director / Service Manager 1-2-1 meetings.
 - Quarterly update reports to Portfolio Holders meetings - with a Portfolio Holder being assigned to each risk on the Strategic Risk Register.
 - Periodic assessment of the Strategic Risk Register by SMT and endorsement of all reports on risk to committees.
 - Assessment and ongoing monitoring of project risk and health & safety risk.
- 4.21 As part of our internal audit work, each audit provides an assessment of service risk registers and makes recommendations to management on their enhancement. Our overall assessment of the results indicated that risk registers generally provided adequate coverage with only a few instances where we identified additional risks or some enhancements of identified risk for management's consideration. Similarly, evidence of review from the monitoring referred to above indicated that these arrangements were effectively in place across the Council, again with only minor improvements being raised.
- 4.22 In addition, our internal audit work continued to look at the management of risk and governance arrangements in other management aspects such as information, IT, fraud, projects, and partnerships.
- 4.23 For the purpose of the Internal Audit opinion, it was still of note that a review of the overarching Corporate Risk Management Policy, last updated in 2016, was overdue, but management took the decision not to review it due to the impending unitary authority. Despite this, arrangements remained fit for purpose and were suitably embedded throughout the Council.

Corporate Governance & Ethics

- 4.24 The corporate governance framework comprises the systems and processes, and culture and values, by which the organisation is directed and controlled, and by which it accounts to, engages with and leads the community. It includes arrangements to monitor the achievement of its strategic objectives and to consider whether this has led to the delivery of appropriate, cost-effective services. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The International Standards for Internal Audit consider that organisational ethics, values and culture should be examined by internal audit as an important part of improving an organisation's governance process.
- 4.25 During 2020/21, the Internal Audit Service contributed to the review and update of various aspects of the organisation's corporate governance framework including the Local Code of Governance and the Annual Governance Statement through the officer working group. Ad-hoc advice was continually given to management and officers on governance and ethics, including aspects of human resources and people management, and the Employee Code of

Conduct. Our fraud work has raised awareness of and promoted appropriate ethics and values within the Council.

- 4.26 Information-related policies and practices continued to be high on our agenda and advice was provided to the IT Service, the Governance & HR Service, and the Senior Information Risk Owner (the Executive Director (Resources)) on information risk and security matters. We continued to support and promote IT governance through our participation on the ICT Steering Group. External assurance was also provided through the Council's PSN accreditation and the work of our IT audit specialist further enhanced this aspect.

ICT Audit Work

- 4.27 Given the increased demands on IT Services to help management deal with the operational impacts of Covid-19, and the attention given to the Future Northants IT programme there was inevitably a delay in the undertaking of IT audits earlier in the year which was heeded by the ICT Steering Group. However, towards the latter quarter of the year senior management reinforced the need for audits to go ahead as originally planned i.e. the undertaking of two audits by TIAA Ltd (our IT audit providers):, namely:
- Remote Access to the DDC network and systems ("substantial assurance")
 - Cyber Security (audit not completed)
- 4.28 A review of remote access on the DDC network domain confirmed that in the main the controls tested were effective with the Citrix remote access service effectively set up to support remote workers with its capacity being improved during the year. Two-factor authentication is in place to access the corporate network via the Citrix virtual environment. Private handheld devices are required to be enrolled into a Mobile Device Management solution to ensure device compliance with corporate policy. However, some areas required improvement in security controls and policy documentation including:
- Penetration testing has not been carried out which led to a lapse of the Public Service Network certificate.
 - The Citrix virtual environment that is used to remotely access the Council network is not isolated from the operating systems on remote computers.
 - The security posture of devices connecting to the Council network is not checked to stop inadequately protected computers from accessing the network.

All areas for improvement have been acknowledged by the DDC IT Services Manager with some matters either being superseded by the setup of IT arrangements for the new unitary authority or are relevant for further consideration by management.

- 4.29 In respect of Cyber Security, unfortunately due to resourcing and communication issues experienced by TIAA and the unavailability of senior IT staff as vesting day approached, it became unfeasible for an audit to be completed in time. As a compromise to not undertaking the audit management were requested to provide a summary of the plans / arrangements for cyber security for the new unitary. As part of the long lead time towards the new unitary council a group of legacy council IT managers regularly met to discuss and establish improvements for consideration by senior management. As part of those discussions, it was determined that a dedicated cyber security resource

would need to be in place, particularly due to the heightened risk of attacks during the transitional period, and as support for the new organisation moving forward. During the year regular IT security warnings were issued to all staff and following vesting day an info-burst session event was held with staff around raising awareness, which is supported by a suite of new policies and eLearning along with the adoption of Microsoft 365, which has a large suite of security and compliance controls that will become more important as there is a move away from legacy systems towards a Cloud environment.

Counter Fraud Update

- 4.30 The Council's Counter Fraud Strategy 2018-21 was originally approved by Council in July 2018. The strategy incorporated the Council's assessment of fraud risk as well as that identified nationally, providing a thorough understanding of the fraud horizon and the current and emerging fraud risks to local authorities. A set of actions proportionate to the size and activities of the Council, the risk it faces and the level of resources deployed, is included in the strategy, structured around meeting the aims and objectives i.e. prevention and awareness; detection and investigation; and deterrence.

Despite the impacts on resources during the year some of the activities achieved included:

- Co-ordination of the Council's response to the ongoing National Fraud Initiative. Work took place to complete the matches from the 2019/20 Council Tax / Electoral Register exercise with periodical summary reporting to the Executive Director (Finance) on progress. Co-ordination of the upload of data for the main 2020-21 exercise also took place and arrangements were made for the upload of the Business Support Grants data - a separate exercise despite the pre and post payment assurance checks actively undertaken.
- Issue of fraud bulletins to staff to raise awareness of current and prevalent fraud attempts on local authorities and other large organisations including the continual proliferation of phishing attempts.
- Participation in International Fraud Awareness Week (15-21 Nov) as organised by the Association of Certified Fraud Examiners. Daily emails were issued to encourage employees to:
 - Complete the Fraud Prevention e-learning module.
 - Understand the reasons why people commit fraud.
 - Be aware of the behavioural red flags that can help identify fraud.
 - Think about how fraud could be committed in their service area and consider whether appropriate controls were in place.
 - Speak up if they have concerns about fraud, bribery, or corruption.
- Continual review of fraud risk registers held by service areas as part of the ongoing programme of audits.
- Completion of CIPFA's annual fraud survey which will help set the national agenda against fraud.
- The delivery of service specific training for the various officers in the Community Team, specifically in relation the identify fraud and document verification.

- 4.31 During the year two formal investigations were commissioned by the Monitoring Officer for the Internal Audit Service to undertake, in line with the Council's Anti-Fraud Bribery and Corruption Response Plan, only briefly mentioned here to ensure confidentiality:
- Finance Team - Transaction (rental deposit) paid to DDC in error - the investigation outcome confirmed there was no irregularity and the monies were repaid to the individual concerned.
 - Community Team - Government Procurement Card transaction - the investigation outcome confirmed no cause for further action; however, five organisational learning points were raised and actioned accordingly.
- 4.32 Several other fraud referrals were considered in the areas of housing, homelessness and disabled facilities grants where matters were delegated to management to lead (as considered necessary by the Monitoring Officer) with support from Internal Audit, or where referral on to other external agencies was made.
- 4.33 Advice and support was provided to management on various other enquiries and further work undertaken because of the increased risk of fraud due to the Covid-19 pandemic. Fraud prevention advice was also provided to management and staff including the production of a specific web page for the members of the public and businesses.

Non-Audit Areas & Consultancy

- 4.34 We continued to support and contribute to officer working groups and provide ad-hoc advice to management and staff on internal controls, governance, and risk. Several "high value" projects were reviewed as part of the management requirement for Internal Audit to review processes and documentation prior to contract award. A list of those projects is provided in appendix A.
- 4.35 Only one breach of the Council's Constitution (Procedure Rules and Regulations) has been identified during our audit work. This matter was covered in section 4.11 of this report.

5. Conclusions

- 5.1 The Internal Audit Service has always had to be sufficiently flexible to reflect the changing risks and priorities of the Council and during these unprecedented times has needed to be as agile as ever. We continued to tailor the service and direct resources to where it is most needed to help the Council achieve its objectives, whilst also being mindful of the need to provide assurance to our stakeholders on the effectiveness of the governance framework and control environment.
- 5.2 Despite the expected depletion of the contingency resource built into the audit plan, effective deployment of audit resources was made to deliver as much of the approved risk-based plan as possible, despite the demands on resources that arose because of the effect from the pandemic on Council services and the diversion of management and officer attention to deal with the setup of the new unitary authority.

- 5.3 In terms of the control environment it became apparent during the year that not all audits on the original audit plan would be delivered, a position which was expected when the plan was originally approved back in May 2020. In not producing a revised audit plan this enabled us to closely measure the impact on resources from events during the year. Despite the situation and in the context of this being the last year for this Council, it is not adjudged that the reduced audit coverage made a significant bearing on the ability to provide an annual audit opinion, as Members should gain confidence from the already established strong cultural environment of governance, risk and internal control, and as management were able to continue to address audit recommendations in a proactive and prompt fashion, notwithstanding other strategic and service priorities.
- 5.4 Based on the audit work undertaken during 2020/21, Internal Audit has been able to provide a “*Full to Substantial Assurance*” opinion on the Council’s control environment. This assurance opinion is based on the results from audits undertaken, our evaluation of the Council’s corporate risk management arrangements, and the ongoing input on governance matters. It is also reflective of the assurance indicators used by this Committee as a basis for measuring the year-on-year trend.

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