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# Internal Audit Annual Assurance Report 2022/23

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<b>Committee considering report:</b>	Governance Committee
<b>Date of Committee:</b>	25 September 2023
<b>Portfolio Member:</b>	Councillor Jeff Brooks
<b>Date Portfolio Member agreed report:</b>	16 June 2023
<b>Report Author:</b>	Julie Gillhespey (Audit Manager)
<b>Forward Plan Ref:</b>	GE4359

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## 1 Purpose of the Report

The Public Sector Internal Audit Standards (PSIAS) require the Audit Manager to make a formal annual report to those charged with governance within the Council. The report is required to include an opinion on the effectiveness of the Council's governance, risk management and internal control frameworks, which in turn supports the Council's Annual Governance Statement.

## 2 Recommendation

That the Governance Committee note the contents of the report.

## 3 Implications and Impact Assessment

Implication	Commentary
<b>Financial:</b>	Not Applicable
<b>Human Resource:</b>	Not Applicable
<b>Legal:</b>	Not Applicable

<b>Risk Management:</b>	Internal Audit work helps to improve risk management processes by identifying weaknesses in systems and procedures and making recommendations to provide mitigation. The aim of which is to help ensure that services and functions across the Council achieve their goals and targets, and the organisation as a whole meets its plans and objectives.			
<b>Property:</b>	Not Applicable			
<b>Policy:</b>	Not Applicable			
	<b>Positive</b>	<b>Neutral</b>	<b>Negative</b>	<b>Commentary</b>
<b>Equalities Impact:</b>				
<b>A</b> Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
<b>B</b> Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
<b>Environmental Impact:</b>		X		
<b>Health Impact:</b>		X		
<b>ICT Impact:</b>		X		
<b>Digital Services Impact:</b>		X		

<b>Council Strategy Priorities:</b>		X		
<b>Core Business:</b>		X		
<b>Data Impact:</b>		X		
<b>Consultation and Engagement:</b>	Section 151 Officer and Monitoring Officer.			

## 4 Executive Summary

4.1 The Public Sector Internal Audit Standards (PSIAS) require the Audit Manager to make a formal report annually to those charged with governance in the Council. The report is required to include an opinion on the Council's governance, risk management and internal control framework, which in turn supports the Annual Governance Statement.

4.2 The audit opinion is based upon the audit assurance work undertaken during the year; knowledge gained from previous audit work; as well as intelligence gained from other sources of assurance, both internal and external, for example, Ofsted, External Audit and the Council's Financial Governance Group.

### 4.3 Purpose of the Audit Manager's Annual Assurance Report

To provide:-

- (a) An opinion on the Council's governance, risk management and control environment;
- (b) Information to support the opinion given;
- (c) A summary of the work undertaken compared with planned;
- (d) Performance of the Internal Audit Team;
- (e) A statement as to whether the work of the Audit Team complies with the PSIAS.

### 4.4 Assurance Opinion

- (a) From the assurance work undertaken and other sources of control/governance information e.g. the Financial Governance Group, the Audit Manager is able to conclude that reasonable assurance can be given that the governance, risk management and control framework remains robust.
- (b) With regards to governance, during the year there was an increase in the number of senior manager vacancies, where acting up or interim arrangements have been put in place. Audit work during the year has not identified any operational issues because of these interim arrangements, however, in giving an opinion on the arrangements in place for effectiveness governance and risk management, this is

an area to mention as the number of senior manager vacancies does have the potential to increase the risk of instability and uncertainty within an organisation. There is corporate awareness of difficulties in recruiting and risks with the level of senior management vacancies and these issues have been included in the Annual Governance Statement.

- (c) In relation to the assurance opinions given there were three corporate audits given a weak opinion, and three school audits given a weak opinion, however the proportion of limited assurance reports continues to be low compared with the number of completed audits during the year given a satisfactory opinion and above. The low assurance reports will be followed up to check on progress made on implementing agreed recommendations.
- (d) There was one Follow-up review completed during the year where we concluded unsatisfactory progress had been made, a second stage follow-up has been agreed to revisit this area.

#### **4.5 Performance of the Audit Team**

- (a) The team has a service performance indicator to achieve 80% of the audit plan. For 2022/23 the actual result was 76% compared with the previous year's outcome of 86%. However, the team had a vacancy for 10 months of the financial year, adjusting the percentage for actual people in post, the productivity level/achievement of the plan was 89%.

## **5 Supporting Information**

### **Introduction**

- 5.1 The Accounts and Audit (England) Regulations (2015) require each local authority to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices.
- 5.2 The Public Sector Internal Audit Standards (PSIAS), including the CIPFA "Local Government Application Notes", require the Chief Audit Executive (the Audit Manager) to make a formal report annually to those charged with governance in the Council. The report is required to include an opinion on the Council's governance, risk management and internal control framework, which in turn supports the Annual Governance Statement.

### **Background**

- 5.3 This report provides that opinion and includes information to support the opinion given. The report content has been compiled to conform to the requirements of the PSIAS.
- 5.4 The audit opinion is based upon the assurance work undertaken during the year and knowledge gained from previous assurance work, as well as intelligence gained from other sources of assurance, both internal and external, for example, Corporate Board reports, Ofsted, External Audit and the Council's Financial Governance Group.
- 5.5 A system of internal control cannot provide total assurance that all risk has been identified and eliminated; it is used to manage the level of risk so that it is at an acceptable level for an organisation, taking into account the Council's risk appetite.

## **Purpose of the Audit Manager's Annual Assurance Report**

5.6 To provide:-

- (a) An opinion on the Council's governance, risk management and control environment;
- (b) Information to support the opinion given;
- (c) A summary of the work undertaken compared with the work planned;
- (d) Information on the performance of the Internal Audit Team;
- (e) A statement as to whether the work of the Audit Team complies with the PSIAS.

## **Assurance Opinion**

5.7 From the assurance work undertaken and other sources of control/governance information e.g. the Finance and Governance Group, the Audit Manager is able to conclude that reasonable assurance can be given that the governance, risk management and control framework remains robust.

5.8 With regards to the area of governance, there was an increase in vacancies at senior manager level during the year, and a subsequent increase in the level of interim and acting up arrangements for these senior management positions. The findings of our audit work during the year have not highlighted issues because of these interim arrangements, however, this issue is being included in this report as the situation can increase the risk of instability and lack of management capacity. The issue of not being able to recruit generally and at senior management level has been flagged as a corporate risk and has been included in the Annual Governance Statement as an area requiring action, so is a known issue.

5.9 No system of control can provide absolute assurance against material misstatement or loss, therefore Internal Audit can only provide reasonable assurance. This year there were only three corporate audits which had a less than satisfactory audit opinion. There were also three schools given a weak opinion. As with previous years, the number of limited assurance reports is low which is the key criteria on which this annual audit opinion is based.

5.10 A detailed audit review was undertaken of the Council's risk Management framework a couple of years ago, the conclusion was that the framework was satisfactory/fit for purpose. Risk management and effectiveness of controls at an audit level have not identified any trends/patterns of concern with how risks are being managed within the organisation.

5.11 There have been no limitations or restrictions on the audit plan coverage or scope of the work undertaken that could have a negative impact on the opinion. There have been no impairments to the objectivity or independence of the Audit team.

## **Results of Work Undertaken to Support the Opinion**

5.12 Internal Audit use the following categories for their assurance work report opinions:-

<b>Opinion Category</b>	<b>Definition</b>
Very Well Controlled	Very strong control framework with only minor control weaknesses or low levels of non-compliance identified.
Well Controlled	Strong control framework with a small number of control/compliance issues identified.
Satisfactory	An adequate control framework is in place, a number of control weaknesses identified but not significant enough to cause concern.
Weak	There are a large number of control weaknesses and/or some significant control issues which are of concern.
Very Weak	The overall control framework has significant weaknesses and is not effective.

5.13 A summary of the Internal Audit assurance work completed during the year is detailed below together with the assurance opinion that was given:-

#### **Corporate**

<b>Very Weak</b>	<b>Weak</b>	<b>Satisfactory</b>	<b>Well Controlled</b>	<b>Very Well Controlled</b>
	3	5	9	

#### **Schools**

<b>Very Weak</b>	<b>Weak</b>	<b>Satisfactory</b>	<b>Well Controlled</b>	<b>Very Well Controlled</b>
	3	1	4	1

5.14 In the first table there are four reports that are in the final stages of consultation, and two in the second table, they have been included as the accuracy of these reports has been checked so the audit opinion is not going to change.

5.15 The tables show that the majority of audit opinions were satisfactory or above. There were only three corporate reviews that were given a less than satisfactory opinion.

5.16 Although there was an increase in the number of schools given a weak opinion (from one last year to three this year), it is still a low number rather than being a sign of an issue of concern, as overall the outcome of school reviews was again very positive with over 50% achieving well controlled or above.

5.17 Internal Audit undertake a follow-up review in all cases where there is a weak or very weak opinion, and in some cases for a satisfactory opinion. The outcome of the follow-up work completed during the year is detailed below:-

<b>Satisfactory Follow-up</b>	<b>Unsatisfactory Follow-up</b>
5	1

### **Internal Audit Work Progress Update since the last Quarterly Report**

5.18 The last progress update was reported to the Governance Committee at the March 2023 meeting, attached to this report are three appendices listing the work undertaken up to the end of the financial year, with completed work at Appendix A, work in progress at Appendix B, and table C showing progress on the specific Anti-Fraud Work Plan. The three weak corporate reports, three weak school reports and unsatisfactory Follow-up were finalised in the last quarter, the summary detail covering the issues/why the opinions were given are set out below:-

### **Weak Audit Report Opinions**

#### **5.19 School Audits**

The School Audit Programme is very comprehensive and covers governance, financial management, financial processes, contract managements and staff payments. For the three weak reports the opinion was arrived at because of the number of areas where control improvements were required rather than there being areas of significant concern that needed to be flagged up.

#### **5.20 Business Continuity**

- (a) Progress has been made with the Joint Emergency Planning Team (JEPU) supporting the delivery of the business continuity project: with business impact analyses, service plans, corporate policies, plans and frameworks having been put in place, and there being a training & exercising strategy. However, the project has repeatedly slipped against agreed target dates and there is still work to complete before a business continuity framework has been fully established.
- (b) Many of the audit findings had already been identified by the JEPU team and fed back to Services, and /or there are plans in place to address them, one of the key things being the need for Services to fully engage with these activities to strengthen business continuity response and resilience.

## 5.21 Accounts Receivable

- (a) The day to day processing of invoices works well, the gaps in control were around ensuring the recovery process is followed through as it should be, and that senior managers have full oversight of debt recovery action. To put our findings into context, debt recovery has been adversely affected by the loss of experienced members of the team over the last 3 years, as well as the cessation of debt recovery during Covid, which has meant that the current team are now dealing with a backlog of debt from that period.
- (b) We found there was a need for more detailed debt analysis and debt management information, the need to review the overall process to make it more efficient and maximise how resources are utilised, with a suggestion to consider the possibility of automation for some parts of the process. When consulting on the draft report we were informed that actions are already in place to address most of the issues raised during the audit, some of the work is part of wider systems development projects involving ICT, as the Finance Service is fully aware that the ICT functionality of the AR system needs to be considerably improved.

## 5.22 Elections – Financial Processes

- (a) A piece of work carried out by Internal Audit in 2019/20 highlighted system / process issues in areas of financial administration controls associated with running of elections. We were asked to revisit this area and check that the audit recommendations made at the time had been fully implemented, this review was therefore focussed on the detailed processes involved in the financial administration of elections (we did not cover the voting/election management processes).
- (b) Some of our recommendations around the operation of the bank account and independent validation of election expenditure claims had been put in place. For other areas we found that the processes still needed to be improved, these covered the need for independent review of accounting information, election payroll costs and bank reconciliation.

## Unsatisfactory Follow-up – Fixed Asset Register

5.23 This audit was undertaken as an advisory piece of work as there were known issues. The audit was a very detailed review of a complex area and as a result of these factors there was a large number of recommendations made. Our follow-up work, undertaken up to December 2022, noted positive direction of travel with progress being made, and improvements which addressed a large proportion of the points. There were however a small number of areas where key controls were yet to be put in place which resulted in the Unsatisfactory rating being given.

5.24 Where there is an unsatisfactory opinion given for a follow-up, the usual practice is for the relevant manager(s) to be asked to attend Committee in order to provide a further update on progress to date/further actions planned. In this case the Audit Manager deemed this was not necessary, as it has been agreed with the service that Audit would carry out a further follow-up review (to be commenced 6 months after the previous one) to give a further progress update on the key points still to be actioned and provide a refreshed opinion at that point in time.



## **Audit Team Resources and Performance**

5.25 The team has a service performance indicator to achieve 80% of the audit plan. For 2022/23 the actual result was 76% compared with last year's outturn of 86%. However, the audit plan was compiled based on there being 5 people in post, the team was carrying a vacancy for 10 months of last financial year. Adjusting the percentage for actual people in post shows that the team's productivity/achievement of the plan was 89%.

5.26 All internal audit work has been undertaken in accordance with the requirements of the PSIAS, the Core Principles of Internal Audit and the Code of Ethics for Internal Audit. Under the PSIAS there is a requirement to have an external assessment of the internal audit service every five years. The last external assessment was undertaken in May 2018. The outcome of which was that the Council 'generally conforms', this is the highest category of compliance (the other possible conclusions being 'partially conforms' and 'does not conform'). The next assessment has been scheduled for June 2023.

5.27 The PSIAS require IA to have an Improvement Programme. The plan last year included two areas for improvement:-

- (a) Improve project planning techniques in order to reduce timeframes for completion of audit assignments;
- (b) Increase the use of IDEA (data analytics software) as part of obtaining assurance during an audit;

Regarding point (a), this has been an area for improvement for the last couple of years, a detailed analysis of completion timeframes was provided in the quarter 3 Update Committee report, which showed that there wasn't an issue with completion timeframes. Regarding point (b), some progress was made during the year in that we carried out an assessment of the audits where data analytics may be helpful/support an audit. This gave us a list of potential audits, but there were only three where there was a clear benefit in using data analytics to cover the focus of the risk assurance we had planned. Each of the audits was postponed until this year, we therefore plan to cover the work this year.

5.28 The Audit Team currently consists of five posts; the Audit Manager, a Principal Auditor and three Senior Auditors. One of the Senior Auditor posts became vacant in June 2022, and we have undertaken two unsuccessful recruitment attempts. At the time of drafting this report (May 2023) we are in the process of carrying out interviews.

## **Audit Plan Actual Coverage**

5.29 The following table shows the level of time spent in each type of audit activity compared with the planned time:-

<b>Audit Activity</b>	<b>Planned Time</b>	<b>Actual Time (up to allocated project time budgets)</b>
Assurance work	648	432
Investigations (potential fraud etc.)	0	5
Investigations to assist HR (Disciplinary/Grievances)	0	37
Covid-19 grant related work	25	41
Plan preparation and Monitoring (corporate and schools)/Governance Committee Update Reports	32	37
Adhoc advice requests (corporate and schools)	25	32
Follow-up audits	20	15
Other (external professional liaison, general grant compliance work, fraud training, monitoring of School Financial Value Standard (SFVS) Annual Returns)	37	40
Plan Contingency Days	50	Used on unplanned work
<b>Total Days</b>	<b>837</b>	<b>639</b>
(These are the totals that are used to calculate the productivity percentage i.e. the 76% referred to in 5.24)		

**5.30 Notes to support the information in the table at point 5.23 above:-**

- (a) The Audit Manager was involved in assisting HR with investigations during the year, one disciplinary and four grievances, which accounts for the largest proportion of unplanned time.

- (b) There was also further Covid grant related work, as many of the grants required independent review and sign off that expenditure had been incurred in accordance with the terms and conditions of the grants.
- (c) Unplanned advisory/investigatory work reduces the level of assurance work that can be undertaken in a year. The team undertook 68% of actual assurance work compared with planned, if the team had not needed to spend time on unplanned investigation work and Covid grant work then the days spent on planned assurance work would have been in the region of 76%.
- (d) As already mentioned, the team had a vacancy for 10 months of the year, as the annual plan of work was based on a team of 5 people, the long term vacancy had a significant impact on the level of planned assurance work that could be undertaken.
- (e) The planned work not undertaken is reviewed as part of risk assessing and preparing the new audit plan, and rescheduled into the following year where deemed appropriate.

5.31 Under the Local Government Transparency Code 2015 the Council is required to publish certain information regarding fraud. In order to meet this duty the following information is provided:-

- (a) There are no professionally accredited counter-fraud internal investigators, the Internal Audit team has the skills and experience to undertake such work where it arises (4 members of staff).
- (b) There have been no occasions where the powers under the Prevention of Social Housing Fraud have been used by the Audit Team.
- (c) There was one potential fraud case that was made via a whistleblower. After an initial investigation we considered there was no evidence to support the allegations.
- (d) There have been no specific costs incurred for the fraud work undertaken this year except for the salary costs for the days spent by the Audit Team on fraud related work. Cost of the days spent on the potential fraud case stated above (using an average daily salary cost) was approximately £765 for 2022/23.

## Proposals

5.32 Committee note the content of the report.

## 6 Other options considered

Not applicable, the report is for information only.

## 7 Conclusion

This report was produced to provide the Audit Manager's opinion on the Council's governance, risk management and control framework for 2022/23. The Audit Manager's annual audit opinion is that reasonable assurance can be provided that the Council's governance, risk management and control framework remains robust.

## 8 Appendices

- 8.1 Appendix A – Audit Work Completed during last quarter of 2022/23.
- 8.2 Appendix B – Audit Work in Progress as at 31st March 2023.
- 8.3 Appendix C – Fraud Plan Progress as at 31st March 2023.

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### Subject to Call-In:

Yes:  No:

- The item is due to be referred to Council for final approval
- Delays in implementation could have serious financial implications for the Council
- Delays in implementation could compromise the Council's position
- Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months
- Item is Urgent Key Decision
- Report is to note only

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