
Internal Audit Annual Assurance Report 2023/24

Committee considering report:	Governance Committee
Date of Committee:	19 November 2024
Portfolio Member:	Councillor Iain Cottingham
Report Author:	Julie Gillhespey (Audit Manager)
Forward Plan Ref:	G4582

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
Financial:	Not Applicable
Human Resource:	Not Applicable
Legal:	Not Applicable
Risk Management:	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.			
Property:	Not Applicable			
Policy:	Not Applicable			
	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:		X		

Core Business:		X		
Data Impact:		X		
Consultation and Engagement:				

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 Finance and 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 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.
 - (b) With regards to governance, the Audit Manager noted concern in her report last year regarding the level of senior management vacancies and acting up arrangements. By the end of 2023/24 the situation had improved although there were still some key vacancies yet to be progressed. As was the case last year, Internal Audit work during the year has not identified any operational issues because of these vacancies/interim arrangements, however, in giving an opinion on the arrangements in place for effectiveness of governance and risk management, this is an area to mention as the number of senior manager
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vacancies, and very new appointments does have the potential for increased risk of uncertainty and instability within an organisation. There is corporate awareness of difficulties in recruiting and risks with agreed plans for remedial action.

- (c) In relation to the assurance opinions given during the year there were no completed corporate audits with a less than satisfactory/reasonable assurance opinion, there was one school audit given a weak opinion. There were a couple of corporate audit reports in draft given a limited assurance opinion. Therefore, the proportion of limited assurance reports continues to be very low compared with the number of completed audits during the year given a satisfactory/reasonable assurance opinion and above. The low assurance report for the school will be followed up to check on progress made on implementing agreed recommendations.
- (d) There was a second stage Follow-up review completed during the year where we concluded unsatisfactory progress had been made, a third 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 2023/24 the actual result was 89% compared with the previous year's outcome of 76%, although last year's percentage was impacted as there was a team vacancy for most of the year.

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 Finance and Governance Group.
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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 governance, the Audit Manager noted concern in her report last year regarding the level of senior management vacancies and acting up arrangements. By the end of 2023/24 the situation had improved although there were still some key vacancies yet to be progressed. 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 remedial action planned.

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 no completed corporate audits which had a less than satisfactory/reasonable assurance opinion. There was one school audit given a weak opinion. There were a couple of corporate audit reports in draft given a limited assurance opinion. As with previous years, the number of limited assurance reports is very 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 changed the audit report opinion categories during 2023/24, the new approach is in line with current recommended practice and is now used by many local authority internal audit functions, enhancing wider consistency, and understanding of audit reporting. The new categories and explanations are provided below:-

Opinion	Description
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Usually moderate-to-minor issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited, but are not a cause for concern.
Limited Assurance	There is a large number of moderate weaknesses and/or significant weaknesses or non-compliance issues identified which are of concern. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

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 (as the assurance opinion categories changed after quarter 1 the tables show the numbers for both categories).

Corporate

Very Weak	Weak	Satisfactory	Well Controlled	Very Well Controlled
0	0	3	4	0

Schools

Very Weak	Weak	Satisfactory	Well Controlled	Very Well Controlled

0	1	2	0	0
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Corporate

No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
0	0	7	3

Schools

No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
0	0	3	0

- 5.14 The tables show that the majority of audit opinions were satisfactory/reasonable assurance or above. There were no completed corporate reviews that were given a less than satisfactory/reasonable assurance opinion, and only one school with a weak opinion.
- 5.15 Internal Audit undertake a follow-up review in all cases where there is a less than satisfactory/reasonable assurance opinion given, and in some reviews where a reasonable assurance opinion is given (decided on a case by case basis). The outcome of the follow-up work completed during the year is detailed below:-

Satisfactory Follow-up	Unsatisfactory Follow-up
3	1

Internal Audit Work Progress Update since the last Quarterly Report

- 5.16 Quarter 3 progress update was reported to the Governance Committee at the July 2024 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. There was one unsatisfactory Follow-up finalised in the last quarter, the summary detail covering the issues/why the opinion was given is set out below:-

Unsatisfactory Follow-up (2nd Stage) – Fixed Asset Register

- 5.17 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
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there was a large number of recommendations made. Our first stage 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.

- 5.18 For the 2nd follow up, we re-reviewed 3 significant and 7 moderate recommendations outstanding after the first stage follow-up. We noted areas of continued progress and improvement. However, there remained a lack of a regular, clearly evidenced schedule of control/validation/oversight work including reviews/sign-offs throughout the year. This limits any assurance that effective processes are in place to mitigate the risk of errors in the accuracy and completeness of the Fixed Asset Register for the year-end external audit.
- 5.19 As there are still a couple of significant recommendations that have yet to be addressed/fully addressed, we have therefore concluded that Unsatisfactory progress has been made at this point in time. We have determined that a third stage follow-up is required in order to check these significant issues have been satisfactorily progressed.

Audit Team Resources and Performance

- 5.20 The team has a service performance indicator to achieve 80% of the audit plan. For 2023/24 the actual result was 89% compared with last year's outturn of 76%. Last year's outturn was lower than the target because the team was carrying a vacancy i.e. a proportion of the planned work was not allocated/undertaken.
- 5.21 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 June 2023, the outcome of which was that the Council achieved a 'Fully Conforms' opinion, this is the highest category of compliance (the other possible conclusions being 'partially conforms' and 'does not conform'). The next assessment will be due before June 2028.
- 5.22 The PSIAS require IA to have an Improvement Programme. The plan last year included two areas for improvement:-
- (a) Review the audit report opinion categories;
 - (b) Increase the use data analytics as part of obtaining assurance during an audit.
- Regarding point (a), this was completed after the first quarter, regarding point (b), some progress was made during the year in that we continued to bear in mind where data analytics may be helpful/support an audit.
- 5.23 The Audit Team currently consists of five posts; the Audit Manager, a Principal Auditor, two Senior Auditors and one Auditor post (current post holder is undertaking an Internal Audit Apprenticeship).

Audit Plan Actual Coverage

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

Audit Activity	Planned Time	Actual Time (up to allocated project time budgets)
Assurance work	536	383
Budget Overspend Work (Adult Social Care/Children and Family Services)	0	45
Investigations (potential fraud etc.)	0	36
Investigations to assist HR (Disciplinary/Grievances)	0	2
Grant Sign Off Work	15	26
Plan preparation and Monitoring (corporate and schools)/Governance Committee Update Reports	37	37
Adhoc advice requests (corporate and schools)	25	40
Follow-up audits	20	20
Other (external professional liaison, fraud training, monitoring of School Financial Value Standard (SFVS) Annual Returns.	32	39
PSIAS Assessment (Preparation of self Assessment for external review)	0	12
Assurance Mapping	20	9

Plan Contingency Days	45	
Total Days	730	649
(These are the totals that are used to calculate the productivity percentage i.e. the 89% referred to in 5.22)		

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

- (a) The Budget Overspend work accounts for the largest proportion of unplanned work.
- (b) The Audit Manager was involved in a number of unplanned investigations during the year, some were at the request of senior managers, others were where allegations had been raised about potential for fraud/wrong-doing. This work accounts for the second largest proportion of unplanned time.
- (c) Unplanned advisory/investigatory work reduces the level of assurance work that can be undertaken in a year. The team undertook 71% of actual assurance work compared with planned, if the team had not needed to spend time on unplanned investigation work/budget overspend work then the days spent on planned assurance work would have been in the region of 87%.
- (d) 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.

5.26 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.
 - (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 were three potential fraud cases raised by a whistleblower. After an initial investigation we considered there was no evidence to support the allegations in each case. Internal Audit were also involved in providing information for an investigation being undertaken by the NHS.
 - (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 £7,560 for 2023/24.
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Proposals

5.27 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 2023/24. 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 2023/24.

8.2 Appendix B – Audit Work in Progress as at 31st March 2024.

8.3 Appendix C – Fraud Plan Progress as at 31st March 2024.

Subject to Call-In:

Yes: No:

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

Officer details:

Name: Julie Gillhespey
Job Title: Audit Manager
Tel No: 01635 519455 (ext 2455)
E-mail: Julie.gillhespey@westberks.gov.uk
