



INTERNAL AUDIT ANNUAL REPORT

2022/23

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1. INTRODUCTION

The Annual Reporting Process

- 1.1 This is the annual report of the Chief Internal Auditor, which sets out the results of the work of Internal Audit for 2022/23. The report has been presented to the Corporate Leadership Team in support of the findings and recommendations, enabling an overall opinion to be provided, which will be included in the Annual Governance Statement for 2022/23.

Requirement for Internal Audit

- 1.2 The **role of internal audit** is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of a Council's internal control system because it measures and evaluates the adequacy and effectiveness of controls so that:

- Members and senior management can know the extent to which they can rely on the whole system; and
- Individual managers can know how reliable the systems are and the controls for which they are responsible.

- 1.3 Our mission is;

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”

The accepted definition from the Institute of Internal Auditors states:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

- 1.4 The internal control system is comprised of the whole network of systems and controls established to manage the Council to ensure that its objectives are met. It includes financial and non-financial controls, and also arrangements for ensuring that the Council is to achieve value for money from its activities.
- 1.5 The requirement for an Internal Audit function derives from local government legislation including Section 151 of the Local Government Act 1972 which requires authorities to “make arrangements for the proper administration of their financial affairs”. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that a relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.”

2. ADEQUACY AND EFFECTIVENESS OF THE INTERNAL CONTROL ENVIRONMENT

How Internal Control is Reviewed

- 2.1 In 2022/23 an annual risk based audit plan was produced and approved by the Audit & Standards Committee in April 2022. The plan took into account the adequacy of the organisations risk management and other assurance processes. The plan outlined the areas that were to be reviewed in 2022/23 in terms of their priority and resources required to undertake them.
- 2.2 This risk based approach to audit planning results in a comprehensive range of audits that are undertaken during the course of the year to support the overall opinion on the control environment. Examples include:-
- system based reviews of all key financial systems that could have a material impact on the accounts e.g. payroll, creditors, council tax and housing benefits;
 - regulatory audits of Council establishments e.g. bereavement services ;
 - systems based reviews of departmental systems/service areas e.g., planning enforcement and safeguarding;
 - corporate reviews e.g. GDPR and risk management
 - a small contingency for special investigations and the provision of ad hoc advice.

Internal Audit Opinion for 2022/23 and the Annual Governance Statement (AGS)

- 2.3 Regulation 4 of the Accounts and Audit Regulations 2015 requires that:-

“The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes risk management arrangements.”

“The relevant body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall publish a statement on internal control, prepared in accordance with proper practices, with any statement of accounts it is obliged to publish.”

- 2.4 Internal Audit, along with other assurance processes of the Council, have a responsibility to provide assurance from the work they undertake during the year in respect of the internal control systems operating within the Council.

*From the evaluation and testing of systems during 2022/23 along with wider knowledge of the significant risks and other sources of assurance, a **Satisfactory** level of control can be provided. However, some control failings have been identified which are being addressed by senior managers. Additionally, assurances have been given by the appropriate chief officer(s) that controls are being improved. There are no significant control issues identified for inclusion in the Annual Governance Statement.*

- 2.5 However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks. These risks are reflected in the audit plan and are the subject of separate reports during the course of the year.

Significant Issues

2.6 None of the reports issued in 2022/23 had a negative opinion. The following three reports received marginal (neutral) opinions:

2.7 Planning Enforcement

At this audit thirteen recommendations were made (five medium risks and eight low risks), with the resultant audit opinion of 'Marginal'. The key areas which required improvement were in respect of the management of caseloads, the processing of complaints, and the monitoring of performance

2.8 Trade Waste Services (Income)

At this audit nine recommendations were made (seven medium risks and two low risks), with the resultant audit opinion of 'Marginal'. The key areas which required improvement were in respect of the services financial and budgetary framework and management, and the maintenance of stock records.

2.9 Disabled Facilities Grant 2021/2022

At this audit four recommendations were made (four medium risks), with the resultant audit opinion of 'Marginal'. The key areas which required improvement were in respect of the management and administration of information and supporting records and documentation.

2.10 Internal Audit will continue to monitor recommendations to ensure appropriate management action is taken to address the weaknesses identified.

3. SUMMARY OF INTERNAL AUDIT WORK 2022/23

3.1 The Internal Audit Plan identified twenty three audits (including five IT audits) to be undertaken in 2022/23. During these reviews the following objectives of internal audit were considered:

- to review and appraise the soundness, adequacy and application of the whole system of internal control;
- to ascertain the extent to which the whole system of internal control ensures compliance with established policies and procedures;
- to ascertain the extent to which the assets and interests entrusted to or funded by the Authority are properly controlled and safeguarded from losses of all kinds;
- to ascertain that management information is reliable as a basis for the production of financial, statistical and other returns;
- to ascertain the integrity and reliability of information provided to management including that used in decision making, and
- to ascertain that systems of controls are laid down and operate to achieve the most economic, efficient and effective use of resources.

Audits Completed

3.2 During the period April 2022 to March 2023, eight reports were completed and issued. A summary of the level of assurance for all audits undertaken in 2022/23 and the recommendations made, by risk category, is given in the table below. For further

details on audits undertaken during 2022/23 see Table 7, Appendix A1. A summary chart is also provided at Appendix A2.

Table 1 – Opinions Made 2022/23

Assurance	Audits	
	No.	%
Good (Positive opinion)	2	25%
Satisfactory (Positive opinion)	2	25%
Marginal (Neutral opinion)	3	37.5%
Unsatisfactory (Negative opinion)	0	0%
Unsound (Negative opinion)	0	0%
Without opinion	1	12.5%
Total	8	100.0%

Opinions are classified as:

Table 2 – Opinion Definitions

Level of Assurance	Detailed definition of level of assurance.
Good (Positive)	From the evaluation and testing of the systems examined during 2021/22 there appears to be a good control environment in which all recommendations made by internal audit have been addressed and all agreed actions executed. There are no control issues identified for inclusion in the Annual Governance Statement.
Satisfactory (Positive)	From the evaluation and testing of systems during 2021/22 there appears to be a satisfactory level of control. However, some control failings have been identified which are being addressed by senior managers. Additionally, assurances have been given by the appropriate chief officer(s) that controls are being improved. There are no significant control issues identified for inclusion in the Annual Governance Statement.
Marginal (Neutral)	From the evaluation and testing of systems during 2021/22, a number of weaknesses have been identified, which make it difficult to place reliance on the overall operation of the internal control framework. Assurance has been given by the appropriate chief officer(s) that the actions required to improve the overall adequacy and effectiveness of the council's internal control environment are

	being taken. This will be recorded in the Annual Governance Statement.
Unsatisfactory (negative)	From the evaluation and testing of systems during 2021/22, a number of significant weaknesses have been identified which make it difficult to place reliance on the overall operation of the internal control framework. Significant actions are required to improve the overall adequacy and effectiveness of the council's internal control environment and will be recorded in the Annual Governance Statement.
Unsound (negative)	From the evaluation and testing of the systems examined during 2021/22, one or more fundamental systems have been identified as having major absences or weaknesses which are not being addressed; and therefore, places the council's internal control environment at risk and will be recorded in the Annual Governance Statement.

3.3 A total of 39 recommendations were made during 2022/23, recommendations are classified as:

High Risk – Action that is considered imperative to ensure that the authority is not exposed to high risks;

Medium Risk – Action that is considered necessary to avoid exposure to significant risks;

Low Risk – Action that is considered desirable and which should result in enhanced control or better value for money.

The 39 recommendations can be broken down as follows;

Table 3 – Recommendations Made 2022/23

Risk	No.	%
High	0	0.0%
Medium	18	46.2%
Low	21	53.8%
Total	39	100.0%

Status of recommendations

3.4 Having accepted the recommendations made as a result of internal audit work, senior managers are responsible for ensuring their prompt implementation. From the information provided, the reported status of the (39) recommendations made during 2022/23 shown over.

Status	No.	%
Implemented	20	51%

Not implemented	15	39%
Issued (i.e. not yet reached the due date)	4	10%
Total	39	100%

3.5 In addition, the following prior year recommendations remain outstanding:

Audit Year	Overdue Recommendations Not Implemented
2021/2022	12
Prior Year Total	12
2022/2023 (as 3.4 above)	15
Total	27

3.6 Recommendations made during 2022/23 will continue to be monitored and information provided by managers is recorded and monitored through to completion.

4 **AUDIT PERFORMANCE**

4.1 In order to monitor performance against the work identified within the annual plan, Internal Audit work is monitored on a regular basis. Table 6 analyses the status of work-in-progress and planned work at the end of March 2023, showing whether work had been completed / in progress, or has still to be started. Of the planned work undertaken in the 2022/23, 50% of the work was completed and 50% was in progress and carried forward for completion in 2023/24.

Table 6 – Summary of Audit Work 2022/23

Category	Planned Audits	
	No.	%
Work-in-Progress B/F	9	
Planned 2022/23	20	
Deferred	(7)	
Not required	(6)	
Jobs 2022/23	16	
Progress 2022/23		
Complete	8	50.0%
In Progress C/F	8	50.0%
Total	16	100.0%

In addition to the planned audit work, during 2022/23 Internal Audit had completed or had in progress as at the end of March 2023 two unplanned reviews / audits.

- 4.2 Audit reports were produced continually throughout the year. A schedule of reports issued was produced on a quarterly basis and presented to the Audit Committee. Not all areas of work originally scheduled for 2022/23 were completed within the year. The outstanding work has been:
- Deferred to 2023/24, in which case it will be scheduled into the appropriate quarter of the plan, or
 - Subject to a reassessment of risk and the work reclassified, or
 - Deemed no longer applicable.
- 4.3 At the end of 2022/23 a number of audits were in progress and had yet to be finalised and issued. These reviews will be completed and reported through the regular quarterly monitoring process. Further details are provided in Table 8, Appendix A2.

5. FRAUD & IRREGULARITY WORK

Pro-active Fraud work

- 5.1 The Internal Audit section has taken a proactive approach to the prevention / detection of fraud and corruption. During the year it has continued working with Stoke on Trent City Council on the development of the Staffordshire Counter Fraud Partnership.

Fraud/Irregularity Investigations

- 5.2 No allegations have been received through the Council's Confidential Reporting or Antifraud and Bribery frameworks in the year.

National Fraud Initiative Data matching

- 5.3 The Council is a statutory participant in the Cabinet Office's National Fraud Initiative (NFI) exercise which is carried out every 2 years. The most recent matches have recently been received and are being reviewed by the relevant departments.

6. REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

- 6.1 The Public Sector Internal Audit Standards (PSIAS), which came into force in April 2013; updated August 2017 and apply across the whole of the public sector and provide a framework for internal audit which:
- defines the nature of its work;
 - sets out its basic principles;
 - aims to improve organisational processes and operations; and
 - forms a basis to evaluate its performance.
- The current PSIAS are under review with a draft set of revised standards currently out for consultation.
- 6.2 Local authorities must demonstrate their compliance with the standards. Compliance against the Standards is to be subject to periodic self-assessment, supplemented by an external assessment conducted at least once every 5 years. In November 2022, an external review of the internal audit service was undertaken. The review included interviews with the Strategic Manager Audit and Fraud, members of the Audit Team. A sample of internal audit clients and the Chair of the Audit and Standards Committee received a survey to complete to support the review. The review also included an

evaluation of a sample of the reports produced by the service and other policies and procedures. The overall opinion as a result of the review was that the Internal Audit Service had achieved the top standard of 'Generally Conforms' to the requirements of the Public Sector Internal Audit Standards and those of the Local Government Application Note. The review highlighted a number of recommendations and suggestions for the enhancement of the service. The action plan produced as a result of the review is included as Appendix B and regular updates on progress will be continue to be reported to the Audit Committee.

- 6.3 In order to ensure the quality of each audit, each report is subject to a review by a more senior auditor. This process forms part of the internal quality assurance process and helps to ensure a consistent approach between auditors.

7.0 Internal Audit and the Management of Risk

- 7.1 Internal Audit undertake a risk-based approach to audit assignments; identifying objectives, risks and controls, evaluating the extent to which those controls address the organisation's risks, identifying over- or under-control, articulating residual risk and recommending management action as appropriate. This approach is subject to continuous review and Internal Audit continues to be in a unique position to educate senior management on risk and inform the council's risk management processes and procedures.

- 7.2 During 2022/23 Internal Audit have continued to facilitate the embedding of risk management processes and culture across the council. During 2022/23 internal audit undertook a review of corporate risk management arrangements with an overall satisfactory opinion. Areas for improvement were identified as ensuring risk registers disclose the objectives on which risks may have an impact, improving the logic and profile of the matrix used to evaluate risks and clarifying which controls and actions were recorded in risk registers.

- 7.3 Internal Audit is to continue to review and assist in improving the management of risk; and has in its audit plan for 2023/24 allocated resources to undertaking a further health check review of the council's risk management arrangements.

8.0 OPERATIONAL PLANS FOR 2023/24

- 8.1 Internal Audit will continue to identify ways to actively promote awareness of risks in relation to fraud and corruption. Training and awareness will continue to be raised across the organisation.

- 8.2 The service will continue to review and improve its service where appropriate. It will also ensure that adequate training is provided and the role of the Audit and Standards Committee is developed in line with best practice.

Table 7 - Summary of Issued Reports 2022/23

Audit	Level of Assurance	Number of Recommendations			
		High	Medium	Low	Total
Council Tax and NNDR 2021/22 Health-Check	Good (Positive)	0	1	1	2
Treasury Management 2021/22 Health-Check	Good (Positive)	0	0	0	0
Planning Enforcement	Marginal (Neutral)	0	5	8	13
Risk Management (Corporate)	Satisfactory (Positive)	0	1	8	9
Trade Waste Services (Income)	Marginal (Neutral)	0	7	2	9
Council Tax and Housing Benefit Overpayment	Without Opinion	0	0	1	1
Disabled Facilities Grant 2021/22	Marginal (Neutral)	0	4	0	4
Payroll	Satisfactory (Positive)	0	0	1	1
Total		0	18	21	39

Table 8 - Work-in-Progress as at 31 March 2023

Directorate	Audit	Status (Preparation / Fieldwork / Draft / Since issued)
Chief Executives	Purchase to Pay	Draft
	Income Collection	Fieldwork
	One Council Programme	Preparation
Corporate	Procurement and Contract Management	Fieldwork
	Governance of General Projects (Corporate)	Draft
IT Audit Assurance	Civica System	Preparation
	DLUHC Review	Draft
	Payroll System (joint audit with Stoke-on-Trent City Council)	Fieldwork