



INTERNAL AUDIT ANNUAL REPORT

2023/24

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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 2023/24. 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 2023/24.

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's risks to ensure that its objectives are met. It includes financial and non-financial controls, and also arrangements for ensuring that the Council achieves 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 2023/24 an annual risk based audit plan was produced and approved by the Audit & Standards Committee in April 2023. 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 2023/24 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, debtors, council tax and housing benefits;
 - regulatory audits of Council establishments;
 - systems based reviews of departmental systems/service areas e.g., Streetscene;
 - 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 2023/24 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 2023/24 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. Consideration should be given to whether the control issues identified in the 2023/24 debtors review warrant inclusion in the Annual Governance Statement (see paragraph 2.7 below).*

- 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 Of the reports issued in respect of 2023/2024; both within and after the year, one had a negative opinion and two received marginal (neutral) opinions:

2.7 **Sundry Debtors:** Issued 12/06/2024

At this audit three recommendations were made (one low risk, one medium risk and one high risk), with the resultant audit opinion of 'Unsatisfactory'. The key areas which required improvement were in respect of the full implementation of the debt recovery policy and the analysis of performance. Progress has been made on the recommendations made, all debtors templates have now been completed and tested. Final reminders for the current debtors are to be issued in June, followed by court letters for non-respondents after 14 days.

2.8 **General Project Governance (Corporate):** Issued 30/05/2023

At this audit 14 recommendations were made (seven low risks and seven medium risks), with the resultant audit opinion of 'Marginal'. The key areas which required improvement were in respect of the framework and procedures to monitor and manage general projects, training and guidance.

2.9 **Decision Making (Officers):** Issued 13/06/2024

At this audit seven recommendations were made (three low risks and four medium risks), with the resultant audit opinion of 'Marginal'. The key areas which required improvement were in respect of recording schemes of delegated authority and the publication of officer decisions.

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 2023/24

3.1 The Internal Audit Plan identified 21 audits (including four IT audits) to be undertaken in 2023/24. 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 In respect of the audit plan for 2023/2024 a total of 20 audit reports were completed; 11 were issued during the year and nine issued since the end of March 2024. A summary of the level of assurance for all audits completed in respect of 2023/24 and the recommendations made, by risk category, is given in the tables below. For further details on audits undertaken in respect of 2023/24 see Table 7, Appendix A1. A summary chart is also provided at Appendix B.

Table 1 – Opinions Made in respect of 2023/24

Assurance	Audits	
	No.	%
Good (Positive opinion)	4	20.0%
Satisfactory (Positive opinion)	12	60.0%
Marginal (Neutral opinion)	2	10.0%
Unsatisfactory (Negative opinion)	1	5.0%
Unsound (Negative opinion)	0	0%
Without opinion	1	5.0%
Total	20	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 2023/24 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 2023/24 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 2023/24, a number of weaknesses have been identified, which make it

	<p>difficult to place reliance on the overall operation of the internal control framework.</p> <p>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.</p>
Unsatisfactory (negative)	<p>From the evaluation and testing of systems during 2023/24, a number of significant weaknesses have been identified which make it difficult to place reliance on the overall operation of the internal control framework.</p> <p>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.</p>
Unsound (negative)	<p>From the evaluation and testing of the systems examined during 2023/24, 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.</p>

3.3 A total of 65 recommendations were made in respect of 2023/24, 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 65 recommendations can be broken down as follows;

Table 3 – Recommendations Made in respect of 2023/24

Risk	No.	%
High	1	1.5%
Medium	33	50.8%
Low	31	47.7%
Total	65	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 (65) recommendations made in respect of 2023/24 as at the 31st March 2024 is shown over.

Recommendations made before the year-end (11 reports)		
Status	No.	%
Implemented	22	61.1%
Not implemented	8	22.2%
Issued (i.e. not yet reached the due date)	6	16.7%
Total	36	100%
Recommendations issued since the year-end (Nine reports)		
	29	
	65	

- 3.5 In addition, the following prior year recommendations remained outstanding as at the 31 March 2024:

Audit Year	Overdue Recommendations Not Implemented
2021/2022	6
2022/2023	1
Prior Year Total	7
2023/2024 (as 3.4 above)	8
Total	15

- 3.6 Recommendations made in respect of 2023/24 will continue to be monitored and information provided by managers will be 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 2024, showing whether work was completed in year or after the year-end. Of the planned work undertaken in the 2023/24, 55.0% of the work was completed within the year and 45.0% was completed after the year-end.

Table 6 – Summary of Audit Work 2023/24

Category	Planned Audits	
	No.	%
Work-in-Progress B/F	8	
Planned 2023/24	21	
Deferred	(1)	
Not required	(8)	

Jobs 2023/24	20	
Progress 2023/24		
Completed in year	11	55.0%
Issued since year-end	9	45.0%
Total	20	100.0%

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 2023/24 were completed within the year. The outstanding work at the end of the year has been:

- Completed, or
- Deferred to 2024/25, 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.

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.

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 C and have now been completed or are no longer required due to the ending of the internal audit contract.

- 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. 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 2023/24 Internal Audit have continued to facilitate the embedding of risk management processes and culture across the council. During 2023/24 internal audit undertook a review of corporate risk management arrangements with an overall satisfactory opinion. Areas for improvement were identified as ensuring risk registers were maintained up-to-date and to consider undertaking a benchmarking exercise to identify further possible areas for improvement.

8. OPERATIONAL PLANS FOR 2024/25

- 8.1 From 1st April 2024, internal audit services transferred from Stoke-on-Trent City Council to Staffordshire County Council.

Table 7 - Summary of Reports Issued during 2023/24

Audit	Level of Assurance	Number of Recommendations			
		High	Medium	Low	Total
Cyber Security: Follow-up actions DLUHC Report	Satisfactory (Positive)	0	4	0	4
General Project Governance (Corporate)	Marginal (Neutral)	0	7	7	14
Income Collection 2022/23 Health Check	Good (Positive)	0	1	1	2
Purchase to Pay 2022/23 Health Check	Satisfactory (Positive)	0	3	1	4
Housing Benefits 2023 Health Check	Good (Positive)	0	2	0	2
Disabled Facilities Grant 2022/2023	Without Opinion	0	0	0	0
Management of Risk Health Check	Satisfactory (Positive)	0	1	2	3
Contract Management	Good (Positive)	0	0	1	1
Backup and IT Disaster Recovery Arrangements	Satisfactory (Positive)	0	2	0	2
Streetscene	Satisfactory (Positive)	0	2	2	4
Food Waste Collections – Capital Transitional Grant 2023/2024	Good (Positive)	0	0	0	0
Total		0	22	14	36

Table 8 – Summary of 2023/2024 Reports Issued after 31 March 2024:

Audit	Level of Assurance	Number of Recommendations			
		High	Medium	Low	Total
Asset Management	Satisfactory (Positive)	0	1	2	3
Civica Finance System User Security	Satisfactory (Positive)	0	1	1	2
Equality, Diversity and Inclusion	Satisfactory (Positive)	0	0	0	0
General Data Protection Regulations Health Check	Satisfactory (Positive)	0	0	2	2
Gifts and Hospitality Health Check	Satisfactory (Positive)	0	0	3	3
Human Resources 2023/2024	Satisfactory (Positive)	0	2	1	3
One Council Programme	Satisfactory (Positive)	0	2	4	6
Sundry Debtors	Unsatisfactory (Negative)	1	1	1	3
Decision Making (Officers)	Marginal (Neutral)	0	4	3	7
Total		1	11	17	29