

## Report of the Chief Audit and Control Officer

**INTERNAL AUDIT REVIEW 2022/23**1. Purpose of report

To inform the Committee of the work of Internal Audit during 2022/23 and to provide an annual Internal Audit Assurance Opinion that can be used by the Council to inform its Annual Governance Statement.

2. Recommendation

**The Committee is asked to NOTE the Chief Audit and Control Officer's Annual Assurance Opinion and the work of Internal Audit in 2022/23.**

3. Detail

Under the Constitution and as part of the overall governance arrangements, this Committee is responsible for monitoring the performance of Internal Audit.

In accordance with the Public Sector Internal Audit Standards, developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA), the Chief Audit and Control Officer must deliver an Annual Internal Audit Opinion and report that can be used by the Council to inform its Annual Governance Statement. The Internal Audit Annual Review Report for 2022/23 is included in the appendix.

The Council has to conduct, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of senior management who have responsibility for the development and maintenance of the governance environment, the Internal Audit Review Report and comments from external auditors/other inspectorates.

The system of internal control has been reviewed. On the basis of Internal Audit work completed, it is the opinion of the Chief Audit and Control Officer that the current internal control environment is satisfactory such as to maintain the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. Further context relating to this assurance opinion, including details of any caveats and limitations in scope, are provided in the appendix.

Overall, 68% of the planned audits were complete or awaiting finalisation at the year-end, below the 90% target. As previously reported to this Committee, this was primarily due to a vacancy within the Internal Audit team between October 2021 and August 2022. A risk-based approach to completing audits was taken during this period, with higher-risk audits being prioritised for completion. As at the date of this report, all planned audits for 2022/23 are now complete with satisfactory progress being made with the audit plan for 2023/24.

**4. Financial Implications**

The comments from the Head of Finance Services were as follows:

The work of the Internal Audit section continues to provide crucial and independent assurance to management and Members over the key aspects of the Council's governance, risk management and internal control arrangements. The cost of Internal Audit is included within the established Finance Services budgets

**5. Legal Implications**

The comments from the Monitoring Officer / Head of Legal Services were as follows:

This report already sets out the legal framework for Internal Audit to provide a summary of Internal Audit work. It addresses the statutory obligations for local audit processes. The Local Government Act 1972 and subsequent legislation sets out a duty for the Council to make arrangements for the proper administration of its financial affairs. This report also complies with the requirements of the following:

- Local Government Act 1972
- Accounts and Audit Regulations 2015
- CIPFA/IIA: Public Sector Internal Audit Standards (PSIAS)
- CIPFA/IIA: Local Government Application Note for the UK PSIAS 33.

The provision of an Internal Audit service is integral to financial management at the Council and assists in the discharge of its duties.

**6. Human Resources Implications**

Not applicable.

**7. Union Comments**

Not applicable.

**8. Climate Change Implications**

The Interim Head of Environmental Services has no comments to make on this report.

**9. Data Protection Compliance Implications**

This report does not contain any [OFFICIAL (SENSITIVE)] information and there are no Data Protection issues in relation to this report.

10. Equality Impact Assessment

As there is no change to policy an Equality Impact Assessment is not required.

11. Background Papers

Nil.

## APPENDIX

## INTERNAL AUDIT ANNUAL REVIEW REPORT 2022/23

**1. INTRODUCTION**

This report provides a summary of Internal Audit activities for 2022/23.

The Accounts and Audit Regulations 2015 require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices. The United Kingdom Public Sector Internal Audit Standards (the 'Standards') and the CIPFA Local Government Application Note constitute proper practices so as to satisfy the requirements for larger relevant bodies as set out in the Regulations.

The Standards requires the Chief Audit and Control Officer, as the Council's designated 'chief audit executive', to deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement. The opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The report must incorporate:

- an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework – i.e. the control environment;
- a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance providers); and
- a statement on conformance with the Standards and the results of the quality assurance and improvement programme.

The annual opinion should also be guided by the CIPFA/SOLACE Delivering Good Governance in Local Government Framework.

**2. BACKGROUND TO THE OPINION**

The Council has to conduct, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of senior management who have responsibility for the development and maintenance of the governance environment, this Internal Audit Review Report and from comments made by the external auditors and other review agencies and inspectorates.

A review of the effectiveness of the system of internal audit helps to ensure that the opinion in this report may be relied upon as a key source of evidence in the Annual Governance Statement. The latest review found Internal Audit to be sufficiently compliant with the requirements of the Standards to ensure that the opinion given can be relied upon for assurance purposes.

There are no causes of concern with regard to the independence and objectivity of Internal Audit. Whilst reporting on Internal Audit matters directly to the Deputy Chief Executive (fulfilling the duties of Section 151 of the Local Government Act 1972), the Chief Audit and Control Officer also has:

- free and unrestricted access to the General Management Team.
- free and unrestricted access to the Governance, Audit and Standards Committee (the 'Committee') and attends all of its meetings
- the right to meet with the Chair of the Committee and/or other relevant Members to discuss any matters or concerns that have arisen from Internal Audit work.

### 3. AUDIT OPINION ON THE OVERALL ADEQUACY AND EFFECTIVENESS OF THE COUNCIL'S INTERNAL CONTROL ENVIRONMENT

The system of internal control has been reviewed.

**On the basis of Internal Audit work completed, it is my opinion, as the Chief Audit and Control Officer, that the current internal control environment is satisfactory such as to maintain the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.**

The framework for governance is as set out in the Annual Governance Statement and, in my view, is an accurate description of the governance arrangements. In relation to risk management, I have oversight of the risk management process and conclude that a range of significant risks for the Council have been identified and are being managed.

In terms of the audit assignments completed, services were found to be operating with an appropriate level of internal controls. Where weaknesses and exceptions were highlighted by Internal Audit work, any matters were discussed with management and recommendations made accordingly. Where improvement actions were agreed to address these matters, progress is being made for their implementation. Where this should not be the case, any outstanding significant recommendation is reported to this Committee as part of the regular progress reports.

The opinion has been arrived at with due regards to the following:

- The level of coverage provided by Internal Audit was considered to be adequate to enable this opinion to be delivered.
- Work has been planned and performed so as to obtain sufficient information and explanation considered necessary to provide evidence to give reasonable assurance that the Council's control environment is operating effectively.
- The independence and objectivity of Internal Audit has not been impaired in fact or appearance.

- Insight gained from interaction with senior management and this Committee.
- No adverse implications for the Annual Governance Statement have been identified from work undertaken by Internal Audit.
- The Internal Audit Plan 2022/23, as approved by this Committee on 14 March 2022, and subsequently revised on 28 November 2022, was informed by the Chief Audit and Control Officer's own assessment of risk and materiality, following consultation with senior management, to ensure it was aligned to the Council's corporate objectives and key strategic risks.
- The following table summarises the outcomes of audit assignments completed during the financial year 2022/23, including those audits completed from the previous year's plan that were finalised in the year:

Audit Title	Report Issued	Assurance Opinion	Actions (High Priority)	Actions (Medium / Low Priority)
Council Tax	11/05/22	Substantial	0	1
DH Lawrence Birthplace Museum	12/05/22	Reasonable	0	2
Grounds Maintenance Services	27/06/22	LIMITED	1	2
Health and Safety	11/07/22	Reasonable	0	3
Licensing	10/08/22	Substantial	0	1
Kimberley Leisure Centre	13/09/22	Reasonable	0	0
Benefits	14/09/22	Substantial	0	1
Markets – Cash Review	22/09/22	No issues	0	4
Bereavement Services – Cash Review	26/09/22	No issues	0	2
Rents	24/10/22	Substantial	0	1
Business Rates (NNDR)	24/10/22	Substantial	0	1
Payroll	01/12/22	Substantial	0	0
Human Resources	01/12/22	Reasonable	0	2
Stapleford Town Fund	15/12/22	Substantial	0	0
Sundry Debtors	11/01/23	Substantial	0	0
Electrical Testing (Housing)	31/01/23	LIMITED	1	1
Gas Servicing & Maintenance (Housing)	09/02/23	Reasonable	0	1
Waste Management (Trade Waste)	09/02/23	Substantial	0	2
Creditors and Purchasing	27/03/23	Reasonable	0	4
Business Support	30/03/23	Substantial	0	2

#### 4. QUALIFICATIONS

The opinions expressed in this report have been based upon the work carried out by Internal Audit in 2022/23 (and subsequently beyond year-end) and other assurance reports received, including those from the external auditors.

In the context of the Standards, 'opinion' means that Internal Audit will have done sufficient, evidenced work to form a supportable conclusion about the activity being examined. Internal Audit will word its opinion appropriately if it

cannot give reasonable assurance (e.g. because of limitations to the scope and/or adverse findings arising from its work).

In giving an opinion, it should be noted that assurance can never be absolute. The most that Internal Audit can provide to the Council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to the attention of Internal Audit during the course of its work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The overall opinion is therefore provided with the following caveats:

- The opinion does not imply that Internal Audit has reviewed all the Council's risks, controls and governance arrangements. The opinion is substantially derived from the conduct of risk-based audit assignment work and, as such, it is only one component that is taken into account when producing the Annual Governance Statement.
- No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
- Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each audit report are to be realised.

## **5. ISSUES RELEVANT TO THE ANNUAL GOVERNANCE STATEMENT**

This Committee considered significant governance issues as part of the draft Annual Governance Statement for 2022/23 that was approved on 22 May 2023.

The Chief Audit and Control Officer has reviewed the draft Annual Governance Statement. The significant governance issues raised in the statement were considered to be appropriate. It was also found that the issues carried forward from the previous year had been addressed or were ongoing items that are in the process of being addressed.

With regard to the audits completed during the year, no actions were classed as being critical where action was considered imperative to ensure that the Council was not exposed to high risks. Where a limited assurance opinion was issued, the outstanding actions from these audits are not thought to be significant to the preparation of the Annual Governance Statement.

## **6. SUMMARY OF INTERNAL AUDIT ACTIVITY**

### **6.1 Performance Overview**

Overall, 68% of the planned audits were complete or awaiting finalisation at the year-end, below the 90% target. As previously reported to this Committee, this was primarily due to a vacancy within the Internal Audit team between October 2021 and August 2022. A risk-based approach to completing audits was taken during this period, with higher-risk audits being prioritised for completion. As at

the date of this report, all planned audits for 2022/23 are now complete with satisfactory progress being made with the audit plan for 2023/24.

During the financial year 2022/23, 20 audit reports were issued. The reports included 26 recommendations, of which 2 were considered to be high priority. No recommendation was considered to be so 'critical' as to be exposing the Council to intolerably high risks.

A limited assurance opinion was issued in respect of the audits of Grounds Maintenance Services and Electrical Testing (Housing). This opinion is given where Internal Audit considered that controls within the respective systems provided only limited assurance that risks material to the achievement of the system's objectives are adequately managed. Progress is being made with the respective improvement actions (and/or the risk has been mitigated by current circumstances) and the outstanding matters are not thought to be sufficient so as to affect the overall opinion.

## 6.2 Internal Audit Resources

As noted above, between October 2021 and August 2022, a vacancy existed within the Internal Audit team. This was the result of one of the Senior Internal Auditors being appointed to the role of Chief Audit and Control Officer. Following a successful recruitment exercise, a new Senior Internal Auditor joined the Council in early August 2022.

## 6.3 Special Investigations

Internal Audit completed work on the following special investigations:

- An investigation into the circumstances surrounding a successful 'phishing' attempt against one of the Council's financial systems.
- A series of reviews of the financial background of applications to the Stapleford Town Centre Recovery Fund where the application was for a direct grant from the fund.
- Assessments of the financial viability of potential tenants, suppliers and service providers applying to be considered for a number of tendered contracts and of potential tenants for the Council's commercial premises.
- Review of a number of returns to Central Government grant-awarding bodies, providing assurance over the level of compliance with conditions attached to the relevant grant(s).

## 6.4 Corporate Counter Fraud Activity and National Fraud Initiative (NFI)

Internal Audit continues to take a prominent role in leading and co-ordinating counter fraud activities. It committed around 40 days to counter fraud activity in 2022/23, which included work to co-ordinate and complete elements of the NFI data matching exercise.



An annual report on counter fraud activity will be presented to this Committee in September 2023 to provide Members with details of activity in 2022/23. The report will also include the outcome of a fraud risk assessment exercise, in conjunction with senior management, to inform the Fraud and Corruption Risk Register, and a proposed action plan for the forthcoming year, the delivery of which will further strengthen the current arrangements in place.

## **7. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

In order to facilitate the review of the effectiveness of internal control required by the Accounts and Audit Regulations 2015, it is necessary to complete a review of the effectiveness of its internal audit.

The latest review (January – February 2023) was completed as a self-assessment against ‘proper practice’ consisting of the Public Sector Internal Audit Standards and the Local Government Application Note. The effectiveness of Internal Audit is not solely judged against the extent of compliance with the Standards since the reviews are about effectiveness and not process. In addition to the self-assessment checklist, other aspects provide evidence to support the review including reports on the results of completed audit assignments and any significant findings; reports setting out the Internal Audit Plan for the forthcoming year; and an annual report on the performance of Internal Audit.

In addition, as required by the Public Sector Internal Audit Standards, the Internal Audit Service was during the year (March 2023) subject to an External Quality Assessment (EQA) by a qualified, independent assessor from outside of the organisation.

The review concluded that the Internal Audit Service at Broxtowe ‘generally conforms’ with the Public Sector Internal Audit Standards (the highest level of opinion available), with the service considered to be ‘established’ in two of the primary assessment categories and ‘excelling’ in the third.

Some areas for potential improvement were identified during the course of the review. These primarily related to the refresh of elements of working papers used during the course of Internal Audit assignments, update of existing procedure documentation and the desirability of further aligning the audit planning process and strategy documents with the Council’s approach to risk management. None of the recommended areas for improvement were considered as a ‘must enhance’ (a ‘red’ rating).

As part of the review the external assessor also sought independent ‘blind’ feedback from a sample of Chief Officers, Heads of Service and other Senior Managers as to their opinion of the quality of service provided by the Internal Audit Service. Areas covered by this survey included the perception of the level of presence of Internal Audit across the Council, the quality of communications with Internal Audit and the advice given / recommendations made. It was most encouraging to note that such feedback was overwhelmingly (98.5%) positive.