



GOVERNANCE AND AUDIT COMMITTEE - 11TH JULY 2023

SUBJECT: ANNUAL INTERNAL AUDIT REPORT 2022/23

REPORT BY: ACTING INTERNAL AUDIT SERVICES MANAGER

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to inform the Governance and Audit Committee of the Internal Audit Manager's overall opinion on the Authority's Internal Control Systems derived from the work undertaken by Internal Audit Services during the 2022/23 financial year.

2. SUMMARY

- 2.1 It is a requirement the Council's Financial Regulations, the Internal Audit Charter and the Public Sector Internal Audit Standards (PSIAS) that the Head of Internal Audit provides an annual report to support the Annual Governance Statement. The report should: -
- Include an opinion on the overall systems of internal controls.
 - Present a summary of the audit work that has been undertaken on which this opinion is based.
 - Draw attention to any issues which may impact on the level of assurance provided.
- 2.2 The annual audit opinion should include an evaluation of 3 elements: governance arrangements, risk management and internal control. The audit opinion informs the annual governance review process and is incorporated into the Draft 2022/23 Annual Governance Statement, which is included separately on the agenda.
- 2.3 All audits performed with the exception of most grant certifications, contract final accounts, value for money, and other special reviews generate an overall audit opinion. The audit opinion is based on the number and risk rating of the individual findings noted in the audit. For grants and contracts the opinions are assessed in relation to the risk or impact of the non-compliance or the number of individual non-compliance issues noted. A report was presented to the Audit Committee in 2018 which provided details of the methodology supporting how the audit opinions are generated.

- 2.4 For systems and establishment reviews opinions are rated as “effective”, “effective with opportunity to improve”, “in need of improvement” or “inadequate and in need of Immediate Improvement”.
- 2.5 Grants are assessed “compliant” or “non-compliant” with the grant terms and conditions, and final account audits are assessed as “compliant”, “substantially compliant”, “partially compliant” or “non-compliant” with the Council’s Financial Regulations and Standing Orders.
- 2.6 The audit opinions support the assurance that can be gained overall as those audits noted as “effective” or “compliant” support full assurance, “effective with opportunity to improve” or “substantially compliant” support substantial assurance, “in need of improvement” or “partially compliant” support partial or limited assurance and “inadequate and in need of immediate improvement” or “non-compliant” support no assurance.
- 2.7 A number of school based audits were unable to be progressed during 2022/23 due to industrial action commencing after the start of the audit . These are marked in Appendix 1 as “unable to progress.”
- 2.8 A small number of specific pieces of work do not generate an opinion but the numbers of these are not significant in relation to the overall number and types of audits performed.
- 2.9 Therefore, overall assurance in relation to the Council’s system of internal controls can be gained by considering the range and number of audits and the opinions generated.
- 2.10 This report provides an overview of the work performed and a detailed schedule of audits is attached as Appendix 1

3. RECOMMENDATIONS

- 3.1 The Governance and Audit Committee is asked to note the content of this report and the Internal Audit Manager’s annual opinion for the 2022/23 financial year in order for the Committee to gain the required assurance to fulfil its role.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 To ensure that: -

- the Governance and Audit Committee is aware of the level of Internal Audit coverage and the overall opinion derived from undertaking this work;
- adequate supporting information and evidence has been supplied to the Governance and Audit Committee to enable the Committee to meet its requirements under the Committee’s terms of reference; and
- adequate assurance is provided to support the Annual Governance Statement process.

5. THE REPORT

- 5.1 Both the Council's Financial Regulations and the Internal Audit Charter set out the reporting requirements for Internal Audit Services, and the Public Sector Internal Audit Standards (PSIAS) introduced in 2013 have also reinforced the links with corporate governance and the assurance framework.
- 5.2 The purpose of this report is to provide Members of the Governance and Audit Committee with an opinion or view of the robustness and effectiveness of the internal control systems and procedures in place within the organisation during the 2022/23 financial year.
- 5.3 The opinion is a key element of the annual governance review process and forms part of the published Annual Governance Statement.
- 5.4 The approach adopted for reviewing and evaluating the internal controls and processes revolves around a flexible well-constructed plan that considers several factors such as risk, impact, nature and history etc.
- 5.5 Good progress has now been made in filling vacant posts in the Internal Audit Team and at the time of drafting this report there is just one vacancy remaining with plans in place to recruit. Time and resources have been needed to support the newly recruited staff in developing their skills and experience.
- 5.6 As Members may be aware, PSIAS requires that all Internal Audit staff undertake Continuing Professional Development (CPD), so allocation of resources to training and developing staff is essential and will pay dividends in the future as a well-trained, skilled team will be more resilient to deal with future challenges. Currently the staffing profile consists of 2 qualified accountants, 2 part-qualified accountants who are continuing their professional studies, and one qualified Accounting Technician (AAT). One member of staff is being supported through AAT and one other member of staff is planning to commence studying an accountancy qualification later in 2023. The Acting Internal Audit Manager is also an associate member of the Chartered Institute of Internal Auditors.
- 5.7 A number of audits remained uncompleted at the end of the previous financial year (2021/22) and work was performed to complete these in 2022/23, together with new assignments started in-year. The 2022/23 audits which remain incomplete will be concluded in 2023/24.
- 5.8 A full list of audits undertaken is attached at Appendix 1 and this includes audits brought to completion in the year and those started but which were incomplete and are carried forward into 2023/24. 463 individual pieces of work were undertaken, 50 were unable to be completed, and 25 were incomplete at 31st of March.
- 5.9 In addition, other work undertaken such as grant certification work, internal control advice, system advice, and special investigations etc. can also inform the overall assurance provided by the audit opinion.

- 5.10 The total number of opinions generated between 1/4/22 and 31/3/23 are shown in the table below. .

Opinion	Number	Percentage
Effective	106	27%
Effective with opportunity to Improve	193	50%
In need of Improvement	39	10%
Inadequate	2	0.4%
Compliant	33	9%
Substantially compliant	7	2%
Partly compliant	1	0.2%
Non-compliant	2	0.4%
No opinion	5	1%
TOTAL	388	100

Of the completed audits it can be seen that nearly 86% of the audits completed in the year generated a positive opinion (2021/22 80%)

- 5.11 Further information can also be gleaned in relation to the audits performed by a more detailed analysis of the findings generated from the audits performed. Findings are the individual points noted (if any) during the audit process and as a whole support the overall opinion generated. The MK Insights I.T. system allows findings to be analysed at a granular level and this analysis can also further inform the Committee as to the assurance levels and framework of internal controls. The table below shows an analysis of the findings generated between 1/4/22 and 31/3/23 and the risk ratings associated with them.

Risk rating	Number	Percentage
High	166	25%
Medium	193	30%
Merits attention	291	44%
For information only	8	1%
Total	658	100%

- 5.12 Systems audits have been carried out during 2022/23 on some of the Council's systems by means of internal control reviews, interviews with service managers and testing of samples of transactions and processes.
- 5.13 Data was also submitted to the National Fraud Initiative (NFI) in October 2022 and matches were released in January. Work on these data matches has commenced.
- 5.14 Grant certification - A number of Welsh Government grants are received by the Authority that are subject to a review of accuracy and compliance with terms and conditions requiring a year-end certification. Significant revenue streams arise from these grants.
- 5.15 Internal Audit continues to support internal groups such as the Information Governance Stewards' Group and the Complaints Group.
- 5.16 The Internal Audit Manager is a member of the Corporate Governance Panel and minutes of these meetings are reported to the Governance and Audit Committee for

information. The Panel has significant input into the Annual Governance Statement process.

- 5.17 Internal Audit Services has continued to undertake final account reviews and other contract audit work.
- 5.18 Anonymous letters, reports and complaints are received and assessed within Internal Audit to ensure that they are properly considered, and if necessary, they are then passed to appropriate service areas for further investigation or review. Resource demand for this process is difficult to forecast. These anonymous communications cover a range of possible issues and include highways, planning, anti-social behaviour, tipping, animal control, neighbour issues, child protection and safeguarding, and possible other illegal activities. Each report is assessed individually and referred appropriately. Where allegations relate to criminal activities, benefit fraud, staff irregularities or safeguarding, immediate referrals are made to relevant parties.
- 5.19 Internal Audit also log and record cheques returned to the Authority. Resources for this process are difficult to forecast, however these numbers are showing a continued downward trend which is to be expected as the number of cheque payments issued by the Council reduces.
- 5.20 Other audit work undertaken during the period under review included regularity work, advisory work, supporting working parties and advising on best practise in relation to new systems and processes.
- 5.21 The Public Sector Internal Audit Standards (PSIAS) came into force on the 1st of April 2013 and consist of the following: -
- Definition of internal audit.
 - Code of Ethics.
 - Standards for the Professional Practice of Internal Auditing.
- 5.22 The Internal Audit Service continued to conform to the Standards during 2022/23 and no significant deviations have been noted. An external peer review assessment of compliance with the Standards is due later this year.
- 5.23 An in previous years, the Senior Leadership Team under the direction of the Chief Executive and advice of the Head of Financial Services & S151 Officer and the Head of Legal Services & Monitoring Officer has adopted a robust and clear demonstration of governance and internal controls. The Governance Panel has met regularly, and it is considered that governance continues to be effective.
- 5.24 The Council's risk management processes and risk register continue to be reported to the Governance & Audit Committee and it is considered that this continues to be effective.

Conclusion

- 5.25 **Internal Audit manager's opinion** - The Internal Audit Manager's opinion is based on the output of the work undertaken in the year including assessments and judgements on governance arrangements and the findings and opinions from individual audits as detailed in paragraphs 5.10 and 5.11.

5.26 The data in relation to work undertaken, audit findings and opinions supports the Internal Audit Manager's opinion that the Council's systems and control procedures are effective.

6. ASSUMPTIONS

6.1 There are no assumptions in this report.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

7.1 An Integrated Impact Assessment is not required as this report is for information purposes only.

8. FINANCIAL IMPLICATIONS

8.1 There are no direct financial implications arising from this report.

9. PERSONNEL IMPLICATIONS

9.1 There are no direct personnel implications arising from this report.

10. CONSULTATIONS

10.1 All comments have been reflected in this report.

11. STATUTORY POWER

11.1 Local Government and Elections Act 2021

Author: D Gronow, Acting Internal Audit Manager

Consultees: C Harrhy, Chief Executive
R Edmunds, Corporate Director for Education and Corporate Services
S Harris, Head of Financial Services and S151 Officer

Appendices:

Appendix 1 Audit work undertaken in the period to 31/3/2023.