



## **GOVERNANCE AND AUDIT COMMITTEE - 4<sup>TH</sup> JUNE 2024**

**SUBJECT: ANNUAL INTERNAL AUDIT REPORT 2023/24**

**REPORT BY: ACTING INTERNAL AUDIT SERVICES MANAGER**

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### **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 2023/24 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 2023/24 Annual Governance Statement, which is included separately on today's 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 any 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 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 as “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 assurance that can be gained over the systems of internal control, 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 small number of specific pieces of work do not generate an opinion such as VFM and advice and guidance but the numbers of these are not significant in relation to the overall number and types of audits performed.
- 2.8 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.
- 2.9 This report provides an overview of the work performed during 2023/24 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 2023/24 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 2023/24 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 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 have gained a level 5 finance qualification during 2023/24 and are continuing their professional studies, one qualified Accounting Technician (AAT Level 3) and one qualified AAT Level 2 who is studying for Level 3 currently. One other member of staff is studying an accountancy qualification and has made good progress passing all modules to date. The Acting Internal Audit Manager is also an associate member of the Chartered Institute of Internal Auditors.
- 5.6 A number of audits remained uncompleted at the end of the previous financial year (2022/23) and work was performed to complete these in 2023/24, together with new assignments started in-year. The total number of audits completed in-year was 191. The 2023/24 audits which remain incomplete (27) will be concluded in 2024/25 and progress will be reported to the Governance and Audit Committee during the year.
- 5.7 A full list of audits completed during the year is attached at **Appendix 1** and **Appendix 2** lists those audits that started but which were incomplete and are carried forward into 2024/25.
- 5.8 The Internal Audit team also undertook the administration of the UK Government Fuel Grant scheme for non-mains supplied customers at the request of the Head of Financial Services & S151 Officer. This was due to a lack of capacity to undertake this work elsewhere in Corporate Finance.
- 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 internal audit opinion.
- 5.10 The total number of opinions generated between 1/4/23 and 31/3/24 are shown in the table below.

## Breakdown of Audit Opinions

Breakdown of Audit Opinion 2023-24	Total Audits Completed	Audits Completed in year with outstanding recommendations
Effective	91	2
Effective with opportunity to improve	51	7
In need of improvement	9	2
Inadequate and in need of immediate improvement	2	1
Special Investigation	1	
VFM audit	1	
Grant Certification	3	
Contract - Compliant	23	
Contract - Non-compliant	2	
Contract - Partially-compliant	1	
Contract - Substantially compliant	7	
No opinion (Fuel payment scheme)	1	
<b>Total</b>	<b>192</b>	<b>12</b>

- 5.11 It can be seen that 9 audits generated an “In need of improvement” opinion, 2 generated an “Inadequate and in need of immediate improvement” opinion, and 2 generated a “Contract non-compliant” opinion. Therefore, the majority of work performed provided assurance as to the correct operation of internal control processes.
- 5.12 Further information can also be gleaned in relation to the audits performed by a more detailed analysis of the recommendations generated from the audits performed. Recommendations are generated from individual points noted (if any) during the audit process and seek to rectify the control weaknesses/failures noted. These therefore support the overall opinion generated. Progress on the implementation of recommended actions is reported to the Governance and Audit Committee separately.
- 5.13 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.
- 5.14 The table below shows an analysis of the findings generated between 1/4/23 and 31/3/24 and the risk ratings associated with them for completed audits.

## Analysis of Recommendation risk ratings for 2023/24

Breakdown of completed Audits 2023/24	Number of Audits	Recommendations – Risk Rating			
		High	Medium	Merits Attention	Grand Total
Total Audits Completed with recommendations	191	197	205	288	690
Audits completed in-year with outstanding recommendations	12	1	12	16	29

- 5.15 Systems audits have been conducted during the year on some of the Council's systems by means of internal control reviews, interviews with service managers, and the testing of samples of transactions and processes.
- 5.16 Data was submitted to the National Fraud Initiative (NFI) in October 2022 and matches were released in January 2023. Work has been conducted on these matches in the latter part of 2023/24. Some evaluation of the quality and relevance of the report matches has been undertaken and work has been performed on some of the data match reports determined to provide better quality of matches and outcomes. This is being progressed and the matches are being updated in the NFI system and individual reports will also be issued where significant findings have been noted.
- 5.17 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 audit certification. Significant revenue streams arise from these grants.
- 5.18 Internal Audit continues to support internal groups such as the Information Governance Stewards' Group and the Complaints Group.
- 5.19 The Internal Audit Manager is responsible for co-ordinating information that supports the Annual Governance Statement and reports progress and issues noted to the Corporate Governance Panel, which oversees the governance arrangements within the authority. The Governance Panel has continued to meet as required, and it is considered that governance continues to be effective. Minutes of these meetings are reported to the Governance and Audit Committee for information.
- 5.20 Internal Audit Services has continued to undertake final account reviews and other contract audit work throughout the year.
- 5.21 Anonymous letters, reports and complaints are received and assessed within Internal Audit to ensure that they are carefully 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 that may 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.

- 5.22 Internal Audit also logs and records cheques returned to the Authority. Resources for this process are difficult to forecast, however these numbers continue to show a downward trend and are now minimal. This is to be expected as the number of cheque payments made by the Council has substantially reduced.
- 5.23 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.
- 5.24 The Public Sector Internal Audit Standards (PSIAS) came into force on the 1<sup>st</sup> of April 2013 and consist of the following: -
- Definition of internal audit.
  - Code of Ethics.
  - Standards for the Professional Practice of Internal Auditing.
- 5.25 The Internal Audit Service continued to conform to the Standards during 2023/24 and no significant deviations have been noted. A self-assessment was performed and reported to the Governance and Audit Committee during 2023/24. An external peer review assessment of compliance with the Standards has been completed recently. The findings and any action plan arising will be reported to the Committee later this year.
- 5.26 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.
- 5.27 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**

- 5.28 **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 to 5.12.
- 5.29 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 the Internal Audit Services annual report and annual opinion does not require a change of council policy or strategy.

## **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

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Appendices:

Appendix 1 List of audits completed in 2023/24.

Appendix 2 Audit work incomplete at 31/03/24.