

Public
Key Decision - No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Internal Audit Service: Annual Report 2023/24

Meeting/Date: Corporate Governance Committee – 29th May 2024

Executive Portfolio: Cllr Joanna Harvey, Executive Councillor for Governance and Democratic Services

Report by: Karen Sutton, Director of Finance and Corporate Resources

Ward(s) affected: All Wards

Executive Summary:

The Public Sector Internal Audit Standards (PSIAS) require the Committee to receive an annual report on the work of the Internal Audit Service. The report is required to include:

- The opinion
- A summary of the work that supports the opinion; and
- A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

This report details the work undertaken by Internal Audit during the year ending 31 March 2024 to support the following opinion statement.

Audit Opinion:

It is the opinion of the Head of Internal Audit that, taking into account all available evidence, reasonable assurance may be awarded over the adequacy and effectiveness of the Council's overall internal control environment during the financial year 2023/2024.

The Annual Governance Statement (AGS) requires an annual opinion from the Head of Internal Audit on the Control Environment; the opinion should be provided by a suitably qualified and independent person. As the Council is currently without an Internal Audit Manager, this opinion has been provided by Jonathan Tully, Head of Shared Internal Audit Cambridge City Council.

The opinion is based on the outcome of 8 audit reviews and 6 reviews of key financial systems.

The following new areas are brought to Committee's attention:

- 1) Social Value in Procurement: The audit found that the Policy & Framework adopted in 2019 had not been implemented and key aspects are not complied with, and our approach has not been amended to reflect a number of economic changes. A formal contract management process is not in place and staff not trained in social value. Additional resources are being recruited to review and implement the Social Value in Procurement policy, to adopt the new Procurement Regulations being introduced in October 2024 and to assist Budget Managers with contract management.
- 2) Implementation of Audit Actions: throughout the year there has remained a significant number of audit actions that have become overdue. It is likely that capacity has inhibited progress, but it is important that services propose realistic implementation dates. Internal Audit will take action to discuss the realism or challenge these dates at audit closure.
- 3) Assurance work over the Planning Service (Development Management) and GDPR was not undertaken due to awareness that the service provision was not fully in place. The Services agreed to prepare and follow an improvement plan and the intention is for Internal Audit to review progress against these in the 2024/25 Audit Plan.

The Internal Audit Manager continues to report functionally to the Corporate Governance Committee and maintains organisational independence. There were no constraints placed upon them in respect of determining overall audit coverage, audit methodology, the delivery of the audit plan or proposing actions for improvement or forming opinions on individual audit reports issued.

Recommendation(s):

It is recommended that the Committee:

1. Consider and comment upon the report; and
2. Take into account the audit assurance opinion when considering the Annual Governance Statement (AGS) for 2023/24.

1. PURPOSE OF THE REPORT

- 1.1 This is the annual report detailing Internal Audit performance. It covers the period 1 April 2023 to 31 March 2024.
- 1.2 The report includes an annual opinion on the overall adequacy and effectiveness of the Council's internal control and governance processes. As the role of the Internal Audit Manager is currently vacant within the Council, opinion on its Internal Audit service has been sought from the Head of Shared Internal Audit Cambridge City Council, who is a suitable qualified and independent person.

2. WHY IS THIS REPORT NECESSARY

- 2.1 The Accounts and Audit (England) Regulations 2015 require the Council to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 2.2 The Public Sector Internal Audit Standards (PSIAS) require an annual report to be considered by the Committee as they fulfil the role of the Board (as defined by PSIAS).

3. OPTIONS CONSIDERED/ANALYSIS

- 3.1 The Internal Audit Service Annual Report 2023/24 at Appendix 1 provides details of the work undertaken by Internal Audit during the year ending 31 March 2024 to support the annual opinion statement. This annual assurance opinion and any governance issues are to be included within the Council's AGS for the year.
- 3.2 The PSIAS details the matters that are required to be included in the annual report. These are:
 - a) The opinion
 - b) A summary of the work that supports the opinion; and
 - c) A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.
- 3.1 There are a number of matters within the audit reviews that are brought to the Committee's attention. These are detailed in the annual report and may be taken forward to the AGS as governance issues.

4. KEY IMPACTS / RISKS

- 4.1 Failure to provide an annual report would lead to non-compliance with the PSIAS and require the matter to be reported in the AGS.

5. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

- 5.1 The annual report will be considered by the Committee during the preparation of the AGS.

6. LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND/OR CORPORATE OBJECTIVES

- 6.1 The Internal Audit Service provides assurance to management and the Committee that risks to the delivery of the Corporate Plan across all of its areas are understood and managed appropriately.

7. REASONS FOR THE RECOMMENDED DECISIONS

- 7.1 In fulfilling its obligations under the PSAIS, the Committee is required to receive an annual report on the work of the Internal Audit Service. The outcomes of the report, particularly the annual opinion statement, will be included within the Council's AGS.

8. LIST OF APPENDICES INCLUDED

Appendix 1 – Internal Audit Service: Annual Report 2023/24

9. BACKGROUND PAPERS

Internal Audit Reports

Internal Audit performance management information

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Appendix 1:



Internal Audit Service
Annual Report and Opinion
2023-24

1. INTRODUCTION

This is the annual report detailing Internal Audit performance. It covers the period 1 April 2023 to 31 March 2024.

- 1.1 The report includes the annual opinion, provided by a qualified and independent person on the overall adequacy and effectiveness of the Council's *internal control, governance, and risk management processes*. The opinion has been provided by Jonathan Tully, Head of Shared Internal Audit Cambridge, City Council.
- 1.2 The opinion is based upon the work carried out by Internal Audit during the year, together with any other assurances and general knowledge gained.
- 1.3 The report provides information on:
 - The role of Internal Audit
 - The annual audit opinion
 - The delivery of the annual Internal Audit Plan
 - Audit reports issued and issues of concern.
 - Implementation of agreed actions and follow up.
 - Internal Audit performance
 - Quality assessment and improvement programme (QAIP).

2. ROLE OF INTERNAL AUDIT

- 2.1 The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

'Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards¹ or guidance.'
- 2.2 The role of internal audit is best summarised through its definition within the PSIAS, as 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.'
- 2.3 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the internal control environment (see appendix 2) and, therefore, contribute to the achievement of the organisation's objectives.

3. ANNUAL INTERNAL AUDIT OPINION

- 3.1 The Head of Internal Audit provides an independent opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework and the extent to which the Council can rely on it. This has been considered in the development of the Annual Governance Statement.
- 3.2 Regular updates are presented to the Corporate Governance Committee throughout the year which outline the key findings of the internal audit work undertaken during 2023/2024, including any areas of significant weakness in the internal control environment.
- 3.3 From the audit reviews undertaken, no areas were identified where it was considered that, if the risks highlighted materialised, it would have a major impact on the organisation as a whole. In each instance where it has been identified that the control environment was not strong enough or was not complied with sufficiently to prevent risks to the organisation, Internal Audit has issued recommendations to further improve the system of control and compliance. Where these recommendations are considered to have significant impact on the system of internal control, the implementation of actions is followed-up by Internal Audit and reported to the Corporate Governance Committee.
- 3.4 The results of the work carried out by internal audit, taken together with other sources of assurance, inform the HIA annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 3.5 The Public Sector Internal Audit Standards requires an audit opinion to be provided by a suitably qualified Head of Internal Audit. The Internal Audit Manager, who was substantively in post during the financial year, has left the Council. Information that supports the Governance Risk and Control framework has been provided to me as a peer Head of Internal Audit, who works regularly with the Council through existing partnership arrangements.
- 3.6 I have reviewed the reports and assurance provided by the Internal Audit team in the 2023/2024 Financial Year, plus considered external sources

It is the opinion of the Head of Internal Audit that, taking into account all available evidence, **reasonable assurance** may be awarded over the adequacy and effectiveness of the Council's overall internal control environment during the financial year 2023/2024.

This opinion includes a limitation of scope, as explained in the Resourcing section below.

of assurance, to help inform my opinion of the control environment. I have reviewed a sample of working papers that support the audit reports but have not reperformed the quality assurance work completed by the Internal Audit Manager. I also take assurance that regular updates have been provided to the Corporate Governance Committee during the year.

- 3.7 Internal Audit should continually review their own processes for improvement as good practice. There may be scope to improve the team's internal audit process and I note work undertaken by the Local Government Association (LGA) Peer Review, and that the Council has already engaged with BDO to prepare for an External Quality Assessment. Whilst I have been observing Internal Audit work during this exercise, I have not been duplicating the work of the Peer Review or BDO. If I have seen observations in addition to their existing feedback, I have shared them with the S151 Officer for continuous improvement and development of the team.
- 3.8 Assurance can never be absolute. The audit opinion reflects the view of the assessor on the current state of the governance framework and the effectiveness of the systems of internal control across the Council and provides the Committee with an opinion for inclusion in the Annual Governance Statement (AGS). The opinion does not imply that internal audit has reviewed all risks, controls or governance arrangements.
- 3.9 The Annual Governance Statement should reflect the financial year, up and to the point that the final Statement of Accounts is approved. Any material changes arising whilst the draft Annual Governance Statement is being reviewed by the external auditors will be revised and republished with the final Statement of Accounts as standard practice.
- 3.10 Last year, in 2022/23, the annual audit opinion was stated as adequate assurance, whilst a limited assurance opinion was given for risk management. An action plan was put in place to improve risk management across the organisation, including a review of the Risk Management Strategy, which was approved by Council in December 2023, and the implementation of actions arising from the LGA Peer Challenge of Internal Audit in March 2023. Risk Management is now firmly embedded in the governance arrangements for the Council, and forms the basis of Internal Audit assurance sought, but work to establish the cultural change across all levels of the organisation continues.
- 3.11 The assurance opinion is based on the outcome of eight audit reviews (one still to be formally issued), follow-up reviews and the reviews of key controls within seven core financial systems. Two further audits are currently being undertaken.
- 3.12 There have been nil substantial assurance, four adequate assurance and four "position statement only" audit reports (general) issued in 2023/24.
- 3.13 Forty nine actions for improvement have been agreed in year. Only five actions, all linked to the review of Risk Management, have been classified

as 'red' priority, i.e., meaning the uncontrolled risk has the potential to seriously affect service delivery.

- 3.14 Progress has been noted on actions arising from the core financial audits, with only one action remaining open from last year; this is the review of the Debt Management policy which is scheduled for the next quarter.
- 3.15 Service managers have been asked to provide details of any third party or external assurances obtained for their service or any self-assessments they had carried out; the purpose of this was to gain knowledge of other assurance evidenced for a service area's assurance and to further support the overall annual audit opinion. Third party assurances are also used in the preparation of the annual audit plan.
- 3.16 The role of the Internal Audit manager is accountable to the Corporate Governance Committee and maintains organisational independence. They have no constraints placed upon them in respect of determining overall audit coverage, audit methodology, the delivery of the audit plan or proposing actions for improvement or forming opinions on individual audit reports issued.

4. DELIVERY OF 2023/24 INTERNAL AUDIT ACTIVITIES

4.1 Resourcing

There has been significant change in the resourcing of Internal Audit during 2023/24 and this has impacted upon the team's ability to fully deliver the Internal Audit plan:

- The team welcomed a new fully qualified auditor to assist with cover for the trainee's maternity leave; whilst initially a fixed term position, this recruitment has been confirmed as permanent.
- One Internal Auditor left the team through an organisation internal move and was replaced by an experienced apprentice in September 2023.
- The Trainee Auditor returned from maternity leave at the end of the financial year.
- The Internal Audit Manager commenced leave from the Council in January 2024 and has taken a position in another council. Recruitment has commenced for this role.

This quantum of change has meant the 2023/24 Internal Audit plan was not fully implemented. Consequently, there is a temporary "limitation of scope" when reporting the annual opinion on the control environment.

A "limitation of scope" can arise where there is a potential reduction in the level of assurance when developing an annual opinion. This should not be confused with an "adverse opinion," which arises when sufficient work has been completed and this concludes that internal control arrangements are not adequate and effective.

The Public Sector Internal Audit Standards do not set out a formula to determine the appropriate level of internal coverage. However, as audits reviews from our 2023/24 plan have not been delivered, it is prudent to make our stakeholders aware of this. Our Leadership Team has been informed, and the Corporate Governance Committee have been regularly updated on the progress of our audit plan throughout 2023/24.

The outstanding work has been assessed and reviewed for inclusion in the 2024/25 plan where this continues to be a high priority for assurance. Some of these reviews are already in progress. As we operate an agile risk-based plan this is standard practice.

We have commenced an improvement plan, detailed later in this report, which will help identify solutions for improving our capacity to deliver assurance.

As at 31st March 2024, the approved establishment for Internal Audit was:

Role	FTE	Position status
Apprentice Auditor	1.0	Filled
Trainee Auditor	0.6	Filled
Internal Auditor	0.5	Filled
Internal Audit Manager	1.0	Vacant
Total Resource	<u>3.1</u>	

Where the team does not possess the in-depth skills and knowledge to undertake an audit, e.g., technical ICT reviews, external third party specialists will be used. BDO LLP has been appointed to undertake the Council's ICT audits.

4.2 In Year Internal Audit Activity

The team undertook the following reviews in year. Reports noted as being in draft are ones where final approval from the respective service managers is awaited.

Audit Area/Opinion	Date report issued	Actions Arising	
		Red	Amber
<u>Substantial Assurance:</u>			
None			
<u>Reasonable Assurance:</u>			
CIPFA Financial Management Code	April 2024	0	0
Safeguarding	January 2024	0	16
Tree Management	April 2024	0	8
Disabled Facilities Grants annual declaration	n/a	0	0
Climate - carbon data	draft	0	4
<u>Limited Assurance:</u>			
None			
<u>Position statement only:</u>			
Business Continuity Planning	May 2024	n/a	n/a
People Capacity	May 2024	n/a	n/a
GDPR – Health Check Improvement Action Plan	draft	n/a	n/a
<u>Key Controls:</u>			
Council Tax	February 2024	0	0
NNDR	February 2024	0	0
Creditors	November 2023	0	0
Debtors	December 2023	0	0
Main Accounting System	December 2023	0	0

The audit plan included the review of key controls within a number of key financial systems. The frequency of these continuous auditing reviews has been carried out on a risk versus value assessment.

A number of “position statement only” reviews were undertaken. These were in areas where systems and outputs are in development and the insight of Internal Audit could support and challenge the proposed controls to improve the outcomes.

There were no ‘Limited Assurance’ opinion reports issued in the year. In general, internal audit work found there to be a sound control environment in place across the majority of review areas.

It should also be noted there was a delay in the commencement of ICT review work; this was due to the originally appointed external resources being unable to fulfil their contractual duties. BDO LLP were subsequently appointed and have commenced review duties, with work on assessing Critical Applications Security currently ongoing.

4.3 **Areas of Concern**

- Risk Management: this area was given a limited assurance opinion in 2022/23 following a full internal audit. The new Risk Management Strategy was approved in December 2023 and has been implemented across the Council, although work remains to deploy a formal training programme. A follow up audit is planned for 2024/25.
- Social Value in Procurement was also highlighted as a concern in 2022/23; the Code of Procurement in the Constitution references the current Social Value Procurement policy and is considered as part of the Procurement process. It is recognised that further work is required on the Social Value Procurement policy and a review will be planned once the new policy is implemented.
- A planned review of Procurement activity has been deferred due to capacity constraints on the Procurement resources; senior management is aware and additional resource has been approved.
- Implementation of Audit Actions: The level of overdue audit actions has reduced since the previous year end, although agreed actions continue to become overdue. Whilst there is an expectation that all actions will be implemented by the agreed date, it is acknowledged that where a change to the agreed action is needed, this will often take longer. Regular updates on the progress have been shared with the Corporate Governance Committee.

4.4 **External Sources of Assurance**

Other sources of external assurance are used to help inform an opinion on the control environment. Assurance work and certification that has been completed in the year includes:

- LGO Ombudsman annual report
- ISO 9001:2015 – Quality Management System - Waste Collection
- BS CCTV 7984-2008 (Keyholding and response) compliance
- Driver & Vehicle Standards Agency Certification of Earned Recognition
- Public Services Network Certificate of Connection Compliance
- LGA Corporate Peer Challenge
- EY External Audit 2022/2023 Value For Money Conclusion

5. IMPLEMENTATION OF AGREED ACTIONS AND FOLLOW-UP WORK

At the conclusion of an internal audit review, agreed audit actions are discussed with the respective service manager and implementation dates agreed. Progress against these is then monitored and reported to CGC. There is an expectation 100% of agreed actions will be implemented on time.

All actions are logged in the 4Action system which is accessible by service managers to monitor and update actions for their service. This software is used to report audit action progress to the senior leadership team (SLT) and CGC. The software is proactive, in that it sends out reminders to managers they have an action date approaching, but this does not guarantee action completion by the target date and some actions become overdue, often due to the amount of change required to implement the action being underestimated; managers are asked to provide status updates to their actions to allow the progress to be monitored and assistance provided, if needed.

At April 2023, 18 audit actions were reported as not having been implemented by the due date. By May 2024, this had reduced to 15 actions, as detailed on Appendix B.

Not all the implemented actions are routinely followed up. The IAM decides if a follow-up review is required after considering the action's classification, the action itself, the evidence provided by a manager to support the closure of the action and own knowledge of the action taken. When resources are settled, the intention will be to carry out a follow up review on any actions under a limited assurance opinion and others as they are deemed required.

6. INTERNAL AUDIT PERFORMANCE

- 6.1 The Local Government Association (LGA) undertook a peer review of governance processes, assessed against CIPFA's "Unlocking Internal Audit Potential" report, to provide insight into the effectiveness of the Council's arrangements. The peer review highlighted areas that have historically come under the responsibility of Internal Audit but should be considered for separation in order that Internal Audit is able to independently review and report - these include Whistleblowing, the AGS, and the annual Report of the CGC.

Service delivery targets

- 6.1 A new/refreshed End of Audit Survey has been designed and has been sent to the client for their feedback following closure of an audit.

The survey asks for feedback on various elements within the following aspects of an audit:

- Performance of the auditor.
- How well the audit was managed?
- How well we communicated?
- Quality of the audit report
- Overall quality of the audit (including how we could do things differently to improve our service).

Respondents rated the following areas good or very good:

- | | |
|--------------------------------|--------------------------|
| - Overall quality of the audit | 100% |
| - Quality of the audit reports | 100% |
| - Audit scope and coverage | 100% (Duration only 83%) |
| - Performance of auditor | 100% |

- 6.2 The monitoring of key service delivery targets will be considered in the future but are still used internally as targets within each audit review even though they are not formally measured and reported.

7. QUALITY ASSESSMENT & IMPROVEMENT PROGRAMME (QAIP)

- 7.1 One of the elements of the PSIAS (Public Sector Internal Audit Standards) is the requirement to maintain a quality assessment and improvement programme (QAIP) which needs to be sufficiently comprehensive to encompass all aspects of Internal Audit's operation and management.

- 7.2 The Internal Audit Team is currently not compliant with the PSIAS and is working to achieve this.

- 7.2 A peer review was carried out in [March 2023](#), led by the LGA and using audit leads from other authorities with the intention of assisting the Internal Audit Service in preparation for an external quality review. A further follow-up review happened in [February 2024](#), and this demonstrated some further progress.

- 7.3 The Internal Audit Team is also engaging with BDO to prepare for an External Quality Assessment (EQA) which is required every five years.

- 7.4 New Global Internal Audit Standards have been issued and we expect there will be a Public Sector Version which will take effect from April 2025.

We will take these new developments into account as part of our ongoing assessment to make sure we are adopting the latest standards and best practice.

Appendices

- A. Assurance Definitions used in the report
- B. Internal audit actions not implemented by due date.

Appendix A: Assurance definitions: for information

Opinion	Descriptor
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

In applying the most appropriate level of opinion the internal auditor will use their professional judgement, based on the results of the audit, consideration of risk and consequences of areas of weakness for the organisation.

Internal control environment

The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- establishing and monitoring the achievement of the organisation's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- the financial management of the organisation and the reporting of financial management
- the performance management of the organisation and the reporting of performance management.

System of internal control

A term to describe the totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.