

Eastern Internal Audit Services



SOUTH NORFOLK COUNCIL

Annual Report and Opinion 2022/23

Responsible Officer: Faye Haywood, Head of Internal Audit for South Norfolk Council

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1. INTRODUCTION

- 1.1 The Accounts and Audit Regulations 2015 require that “a relevant authority 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 standards or guidance”.
- 1.2 Those standards – the Public Sector Internal Audit Standards (PSIAS) - require the Head of Internal Audit to provide a written report to those charged with governance (known in this context as the Finance, Resources, Audit and Governance Committee (FRAG) to support the Annual Governance Statement (AGS). This report must set out:
- The opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control during 2022/23, together with reasons if the opinion is unfavourable;
 - A summary of the internal audit work carried from which the opinion is derived, the follow up of management action taken to ensure implementation of agreed action as at financial year end and any reliance placed upon third party assurances;
 - Any issues that are deemed particularly relevant to the AGS.
 - The Annual Review of the Effectiveness of Internal Audit, which includes; the level of compliance with the PSIAS and the results of any quality assurance and improvement programme, the outcomes of the performance indicators and the degree of compliance with CIPFA’s Statement on the Role of the Head of Internal Audit.
- 1.3 When considering this report, the statements made therein should be viewed as key items which need to be used to inform the organisation’s AGS, but there are also a number of other important sources to which the FRAG Committee and statutory officers of the Council should be looking to gain assurance. Moreover, in the course of developing overarching audit opinions for the authority, it should be noted that the assurances provided here, can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes subject to internal audit review. The annual opinion is thus subject to inherent limitations (covering both the control environment and the assurance over controls) and these are examined more fully at **Appendix 3**.

2. ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

2.1 Roles and responsibilities

- The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.
- The AGS is an annual statement by the Leader of the Council and the Managing Director that records and publishes the Council’s governance arrangements.
- An annual opinion is required on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control, based upon and limited to the audit work performed during the year.

This is achieved through the delivery of the risk based Annual Internal Audit Plan discussed and approved with the Corporate Management and Leadership Team and key stakeholders and then approved by FRAG Committee.

The Internal Audit plan was approved at the meeting held in March 2022.

This opinion does not imply that internal audit has reviewed all risks and assurances, but it is one component to be considered during the preparation of the AGS.

FRAG Committee should consider this opinion, together with any assurances from management, its own knowledge of the Council and any assurances received throughout the year from other review bodies such as the external auditor.

2.2 The opinion itself

The overall opinion in relation to the framework of governance, risk management and controls at South Norfolk Council is **reasonable**.

The internal audit team has concluded seven assurance reports. Six of these areas have been given a positive assurance grading. The accounts payable report has been finalised with limited assurance overall. One urgent priority recommendation has been raised in relation to verification of supplier detail changes. Another important finding from this report is referenced at section 3.5 of this report. All other significant recommendations raised during this review have now been verified as complete.

The Internal Audit contractor is yet to finalise work in the following areas, so no overall grading is yet indicated.

- Covid-19 Relief Grants
- Economic Development

A further three reports have been issued in draft and overall gradings indicated. The findings contained within these reports are now subject to management verification.

- Key Controls and Assurance (Limited indicated)
- Procurement and Contract Management (Limited indicated)
- Leisure (Reasonable indicated)

The opinion also considers the results of position statements carried out in year. These have been for Risk Management, HR and Payroll and a post project review of the finance system implementation.

Considering the above, it is recommended that the Council makes reference within its Annual Governance Statement to the improvements required to strengthen compliance with its procurement requirements and highlights how financial controls will be improved. Any high or medium recommendations that remain outstanding within limited assurance reports from prior years such as those raised during 2021/22 for counter fraud and disaster recovery should also be included until they have been verified as resolved.

In providing the opinion the Council's governance, risk management and control framework has been evaluated. Supporting processes, the relative materiality of the issues arising from the internal audit work during the year and management's progress in addressing any control weaknesses identified have all been taken into account.

The opinion has been shared with CLT and the Section 151 Officer prior to publication.

3. **AUDIT WORK UNDERTAKEN DURING THE YEAR**

3.1 **Appendix 1** records the internal audit work delivered during the year on which the opinion is based. In addition, **Appendix 2** is attached which shows the assurances provided over previous financial years to provide an overall picture of the control environment.

3.2 Internal audit work is divided into 4 broad categories:

- Annual opinion audits;
- Fundamental financial systems that underpin the Council's financial processing and reporting;
- Service area audits identified as worthy of review by the risk assessment processes within internal audit;
- Significant computer systems which provide the capability to administer and control the Council's main activities.

3.3 **Summary of the internal audit work**

A total of 166 days were originally included within the 2022/23 internal audit plan. Due to deferrals of audits and delays, 143 days have been delivered.

The 2022/23 plan has included a total of 12 assurance reviews and three position statements. Two reviews are yet to conclude. Seven of the 10 assurance reviews concluded have received a positive assurance grading, and three have received a limited assurance grading.

The Executive Summaries of all finalised assurance reports have been presented to FRAG, ensuring open and transparent reporting, and enabling the Committee to review key service area controls and the conclusions reached.

3.4 **Follow up of management action**

In relation to the follow up of management actions, to ensure that they have been effectively implemented, the position at year end is that of the 35 recommendations agreed so far for 2022/23, 12 have been completed; five are outstanding; and 18 are within deadline.

17 recommendations (two urgent, nine important and six needs attention priority) are outstanding from 2021/22; and one important priority recommendation is outstanding from 2020/21 in regard to HR and Payroll.

Please refer to the separate **Internal Audit Progress and Follow Up Report**, which shows the details of the progress made to date in relation to the implementation of the agreed recommendations, and which provides an update from management regarding important outstanding recommendations.

3.5 **Issues for inclusion in the Annual Governance Statement**

As stated in the opinion itself, a 'Limited' assurance report has been finalised for Accounts Payable. We therefore recommend that the recommendations that are not yet completed are referenced within the Annual Governance Statement. They are as follows.

- Implement a monitoring control to develop and run regular reports of all supplier amendments on the system and ensure that all amendments are legitimate and have been independently checked. (Urgent priority)
- Management to review orders raised prior to a PO being approved and identify whether any further actions are needed. Additionally, management should implement further training for system users with the ability to raise POs and emphasise the importance of raising and approving POs before goods are ordered. (Important priority)

In addition to this, 'Limited' assurance has also been indicated for Key Controls and Assurance. This report is currently in draft with a number of the findings having already been confirmed as complete. Once finalised, we recommend that any remaining recommendations

are referenced in the Annual Governance Statement. The remaining recommendations at the time of reporting are summarised below.

- Ensure creditor and debtor control account reconciliations are promptly reviewed.
- The Treasury Management Principles to be updated to outline controls for the authorisation of investments.
- Review system authorisation levels against the Councils authorised signatory list
- Provide monthly aged debt reports to senior management to demonstrate effective action.

Procurement and Contract Management has also been highlighted as an area of limited assurance. Findings have been raised in relation to the accuracy of the council's contract register and lack of aggregated spend analysis resulting in the potential for noncompliance with the Contract Procurement Rules. Document retention has been raised as an area requiring improvement along with staff training, the recording of exemptions and the proactive management of Procurement Policy Notes (PPNs). Initial findings indicate improvements are required to ensure compliance with the Local Government Transparency Code 2015 and Public Contracts Regulations 2015. Once findings are verified, we recommend the agreed actions are added to the Councils Annual Governance Statement.

We also recommend that outstanding recommendations from previous 'Limited' assurance reviews continue to be referenced in the Annual Governance Statement:

2021/22

Counter Fraud and Corruption

- A Counter Fraud and Corruption Strategy be devised, applying to all aspects of the Councils' business. This should be communicated throughout the Councils and acknowledged by those charged with governance. A strategy provides a framework for preventing and tackling bribery, fraudulent and corrupt acts against the Councils.
- Proactive work be undertaken to raise awareness of potential fraud.
- A programme of work be introduced to improve staff awareness and responsiveness to fraud across the Council.
- An annual fraud plan be devised, agreed by committee and reflect resources mapped to risks and arrangements for reporting outcomes. This plan should cover all areas of the local authority's business and include activities undertaken by contractors and third parties or voluntary sector activities.
- The Councils to introduce an official programme to publicise fraud and corruption cases internally and externally, which is positive and endorsed by the council's communications team.
- A fraud and corruption response plan should be devised to cover all areas of counter fraud work: prevention, detection, investigation, sanctions and redress.

Disaster Recovery

- Council DR Plans be reviewed, updated, communicated and tested. (Urgent priority)
- Regular DR tests be scheduled and undertaken. (Urgent priority)
- Ensure that appropriate staff have DR responsibilities and skills/knowledge is refreshed (Important priority)

4. THIRD PARTY ASSURANCES

4.1 In arriving at the overall opinion reliance has not been placed on any third-party assurances.

5. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

5.1 Quality Assurance and Improvement Programme (QAIP)

5.1.1 The Internal Audit team maintain a QAIP covering actions for service development, standards conformance, risk management, training and skills and performance monitoring. Throughout the year, progress against the QAIP is monitored and success is measured by completing the Internal Assessment, the External Assessment when applicable and in evaluating performance against our suite of KPIs.

5.1.2 Internal Assessment

A checklist for conformance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note has been completed for 2020/21. This covers; the Definition of Internal Auditing, the Code of Ethics and the Standards themselves.

The Attribute Standards address the characteristics of organisations and parties performing Internal Audit activities, in particular; Purpose, Authority and Responsibility, Independence and Objectivity, Proficiency and Due Professional Care, and Quality Assurance and Improvement Programme.

The Performance Standards describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated, in particular; Managing the Internal Audit Activity, Nature of Work, Engagement Planning, Performing the Engagement, Communicating Results, Monitoring Progress and Communicating the Acceptance of Risks.

Through completion of the checklist, we can confirm that the service conforms with Definition of Internal Auditing, the Code of Ethics and the Performance Standards.

5.1.3 External Assessment

In relation to the Attribute Standards, it is recognised that to achieve full conformance an external assessment is needed. An external assessment was carried out in October 2022 by the Chartered Institute of Internal Auditors (IIA). We are pleased to report that EIAS received a 'generally conforms' result, with conformance in 60 out of 64 areas (two areas were not applicable, and two resulted in 'partially conforms'). An extract from the report is provided at **Appendix 4**. A full copy of the report can be provided to members upon request.

It was highlighted, that EIAS are particularly good at: reflection of the standards; focus on performance, risk and adding value; and QAIP. Positive feedback received from key stakeholders highlights that 'reports are the right length and the right format', and that EIAS are 'professional and have an excellent reputation'.

One area of partial conformance was highlighted in coordinating and maximising assurance. Since October, this area has been improved as part of annual internal audit planning. Within the Strategic and Annual Plans report 2023/24 presented in March 2023, an Assurance Map was provided, outlining the top risks, along with first, second and third lines of assurance.

The second area of partial conformance was raised to ensure that all EIAS clients receive an External Quality Assessment as it falls due on the five-year anniversary.

5.2 Performance Indicator outcomes

5.2.1 Actual performance against these targets is outlined within the following table:

Area / Indicator	Frequency	Target	Actual	Comments
<u>Audit Committee / Senior Management</u>				
1. Chief Finance Officer Satisfaction	Annual	Good	Adequate	KPI not achieved
<u>Internal Audit Process</u>				
2. APM issued minimum 20 working days before agreed start date	Quarterly	90%	27%	KPI not achieved (4 out of 15 issued in time)
3. Quarterly draft reports issued within 10 working days of the end of the quarter	Quarterly	95%	27%	KPI not achieved (4 out of 15 issued in time)
4. Quarterly final reports issued within 20 working days of the end of the quarter	Quarterly	95%	13%	KPI not achieved (2 out of 15 issued in time)
5. Quarterly performance pack reported to the contract manager within 15 working days of the end of the quarter	Quarterly	100%	75%	KPI partially achieved (3 out of 4 quarters)
6. Respond to the contract manager within 3 working days where unsatisfactory feedback has been received	Continuous	3 working days	3 working days	KPI achieved
7. PSIAS compliance – deep dive file review of files indicates good evidence saved on file	Quarterly	100%	100%	KPI achieved
<u>Clients</u>				
8. Average feedback score received from key clients (auditees)	Continuous	Adequate	Good	KPI exceeded (6 surveys returned)
9. Percentage of recommendations accepted by management	Quarterly	90%	100%	KPI exceeded
<u>Innovations and Capabilities</u>				
10. Percentage of qualified (including experienced) staff working on the contract each quarter	Quarterly	60%	94%	KPI exceeded
11. Number of training hours per member of staff completed per quarter	Quarterly	1 day	1 day	KPI achieved

5.2.2 As demonstrated by the above, the Internal Audit Contractor has struggled to meet our targets relating to timeliness and S151 satisfaction, throughout 2022/23.

There is significant room for improvement in the issuing of Audit Planning Memorandums 20 working days before audit start date, the issuing of draft reports 10 working days after quarter end and the finalisation of draft reports 20 working days after issue. Key work has been significantly delayed resulting in a challenging year end and difficulties in reaching conclusions for the Annual Opinion in accordance with reporting deadlines.

The Head of Internal Audit and Audit Director TIAA meet weekly to discuss progress against the plan and an action plan has been developed to tackle these issues for the 2023/24 year ahead and this will be closely monitored.

It is reassuring to note however that our KPIs relating to quality have been exceeded in some cases with most satisfaction surveys providing good feedback about the work undertaken.

5.3 Effectiveness of the Head of Internal Audit (HIA) arrangements as measured against the CIPFA Role of the HIA

5.3.1 This Statement sets out the 5 principles that define the core activities and behaviours that apply to the role of the Head of Internal Audit, and the organisational arrangements to support them. The Principles are:

- Champion best practice in governance, objectively assessing the adequacy of governance and management of risks;
- Give an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- Undertake regular and open engagement across the Authority, particularly with the Management Team and the Audit Committee;
- Lead and direct an Internal Audit Service that is resourced to be fit for purpose; and
- Head of Internal Audit to be professionally qualified and suitably experienced.

Completion of the checklist confirms full compliance with the CIPFA guidance on the Role of the Head of Internal Audit in relation to the 5 principles set out within.

6. PROPOSAL

6.1 The Finance, Resources, Audit and Governance Committee, in maintaining an overview as to the quality of systems of internal control in operation at the Council, is being requested to note this report, and the reasonable assurance opinion awarded, and confirms that key information provided is carried across to the Council's Annual Governance Statement, which is also considered on the agenda.

7. RECOMMENDATIONS

- 7.1
- a) Receive and consider the contents of the Annual Report and Opinion of the Head of Internal Audit.
 - b) Receive the **reasonable** audit opinion given in relation to the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2023.
 - c) Receive the opinions expressed together with any significant matters arising from internal audit work and contained within this report and give them due consideration, when developing and reviewing the Council's Annual Governance Statement for 2022/23.
 - d) Receive the conclusions of the Review of the Effectiveness of Internal Audit.

APPENDIX 1 – AUDIT WORK UNDERTAKEN DURING 2022/23

Audit Area	Assurance	No of Recs	Completed	Urgent OS	Important OS	Needs Attention OS	Not yet due
Annual Opinion Audits							
Community Activity	Reasonable	6	2	0	0	0	4
Covid-19 Relief Grants	TBC						
Community Assets	Reasonable	5	0	0	3	2	0
Risk Management	Position Statement						
Accounts Payable	Limited	9	6	0	0	0	3
Local Council Tax Support and Housing Benefit	Reasonable	2	2	0	0	0	0
Council Tax and NNDR	Reasonable	7	0	0	0	0	7
Elections	Substantial	1	0	0	0	0	1
Procurement and Contract Management	Limited (DRAFT)						
Key Controls and Assurance	Limited (DRAFT)						
Business Continuity and Emergency Planning	Reasonable	5	2	0	0	0	3
Economic Development	TBC						
Payroll and HR	Position Statement						
Leisure	Reasonable (DRAFT)						
IT audits							
Post-Implementation Finance System	Position Statement						
Total		35	12	0	3	2	18

Assurance level definitions		Number
Substantial Assurance	Based upon the issues identified there is a robust series of suitably designed controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our audit review were being consistently applied.	1
Reasonable Assurance	Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisations management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.	6
Limited Assurance	Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.	3
No Assurance	Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.	0

APPENDIX 2 - ASSURANCE CHART

	2018-19	2019-20	2020/21	2021/22	2022/23	2023/24
Annual Opinion Audits						
Corporate Governance		Reasonable	Reasonable			X
Risk Management		Maturity Assessment			Position Statement	
Corporate Governance - Big Sky		Reasonable		Position Statement		
Key Controls and Assurance	Reasonable	Reasonable	Reasonable	Reasonable	Limited (DRAFT)	X
Annual Governance Statement				Substantial		
Counter Fraud and Corruption				Limited		
Procurement and Contract Management	Reasonable		Position Statement		Limited (DRAFT)	
FOI and Complaints						X
Project Management						X
Business Continuity and Emergency Planning					Reasonable	
Performance Management, Business Planning				Reasonable		
Corporate Health and Safety				Substantial		
Fundamental Financial Systems						
Local Council Tax Support and Housing Benefit	Reasonable		Reasonable		Reasonable	
Council Tax and National Non Domestic Rates	Reasonable		Reasonable		Reasonable	
Accounts Receivable		Reasonable		Limited		X
Income				Reasonable		
Accountancy Services		Reasonable		Reasonable		X
Budgetary Control						
Accounts Payable	Reasonable		Reasonable		Limited	
Income / Remittances				Reasonable		
Payroll and Human Resources	Substantial		Reasonable		Position Statement	

	2018-19	2019-20	2020/21	2021/22	2022/23	2023/24
Service Area Reviews						
Economic Development			Position Statement		TBC	
Elections	Substantial				Substantial	
GDPR	Reasonable					
Leisure		Reasonable			Reasonable	
Building Control	Reasonable					
Housing Strategy and Affordable Housing						
Nutrient Neutrality						X
Surveillance and Investigatory Powers						X
Legal Services						X
Home Options						
Car Parks	Reasonable					X
Waste Management		Reasonable				X
Food Safety and Licencing				Reasonable		
Housing Standards including Disabled Facilities Grants & Discretionary grants		Reasonable				
Early Help Hub						X
Planning and Development Management		Reasonable				X
Homelessness and Housing Options		Reasonable		Reasonable		X
Community Activity					Reasonable	
Covid-19 Relief Grants					TBC	
Community Assets					Reasonable	
IT Audits						
Network Security and Infrastructure Management						
Cyber Security	Limited			Limited		X
Disaster Recovery		Limited		Limited		
Remote Access (Supplier and User)	Reasonable		Reasonable			
Cash Receipting Application						
Data Centre		Position Statement				
Post-implementation Finance System					Position Statement	
Service Desk			Reasonable			X

APPENDIX 3 – LIMITATIONS AND RESPONSIBILITIES

Limitations inherent to the Internal Auditor's work

The Internal Audit Annual Report has been prepared and TIAA Ltd (the Internal Audit Services contractor) were engaged to undertake the agreed programme of work as approved by management and the Audit Committee, subject to the limitations outlined below.

Opinions

The opinions expressed are based solely on the work undertaken in delivering the approved 2022/23 Annual Internal Audit Plan. The work addressed the risks and control objectives agreed for each individual planned assignment as set out in the corresponding audit planning memorandums (terms of reference) and reports.

Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve corporate/service policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness. Internal control systems essentially rely on an ongoing process of identifying and prioritising the risks to the achievement of the organisation's policies, aims and objectives, evaluating the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. That said, internal control systems, no matter how well they have been constructed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

Internal Audit's assessment of controls relating to Council is for the year ended 31 March 2023. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in the operating environment, law, regulation or other matters; or,
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

The Head of Internal Audit, has sought to plan Internal Audit work, so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, additional work will then be carried out which is directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected and TIAA's examinations as the Council's internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

APPENDIX 4 – EXTERNAL QUALITY ASSESSMENT REPORT EXTRACT

Conformance Opinion

The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards.

There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.

It is our view that internal audit activity conforms to 60 of the 64 relevant principles, with partial conformance on two principles. Two of the principles were not relevant to EIAS as they relate to situations that have not occurred to date.

This is summarised in the table below:

Summary of conformance	Standards	Generally conforms	Partially conforms	Does not conform	Not relevant	Total
Definition of IA and Code of Ethics	Rules of conduct	12				12
Purpose	1000 - 1130	8				8
Proficiency and Due Professional Care (People)	1200 - 1230	4				4
Quality Assurance and Improvement Programme	1300 - 1322	5	1		1	7
Managing the Internal Audit Activity	2000 - 2130	11	1			12
Performance and Delivery	2200 - 2600	20			1	21
Total		60	2	0	2¹	64

¹ These relate to circumstances which prior to the external quality assessment were deemed not relevant, namely the Disclosure of Non-conformance and Engagement Disclosure of Non-conformance, which have not been necessary to date.