

Internal Audit Annual Opinion & Report 2023-24

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Portfolio: Finance

Ward(s) Affected: All

Purpose of the Report:

To inform Members of the Committee of the Head of Internal Audit's annual opinion concerning the Council's framework of governance, risk management and control.

Recommendations:

1. That members: -
 - Receive and consider the contents of the Annual Opinion Report of the Head of Internal Audit.
 - Note that a reasonable audit opinion has been given in relation to the framework of governance, risk management and control for the year ended 31 March 2024.
 - Note that the opinions expressed together with significant matters arising from internal audit work and contained within this report should be given due consideration when developing and reviewing the Council's Annual Governance Statement for 2023/24.
 - Note the outcomes of the Internal Audit's performance measures and the Quality Assurance and Improvement Programme (QAIP).

1. Summary

- 1.1 This report concludes on the internal audit activity undertaken during 2023/24 and provides an annual opinion concerning the Council's framework of governance, risk management and control, concludes on the effectiveness of internal audit and provides key information for the Annual Governance Statement.

2. Background

- 2.1 The Head of Internal Audit should: -

- Provide an opinion on the overall adequacy and effectiveness of the Council's governance, risk management and internal control environment;
- Disclose any qualifications to that opinion, together with the reasons for the qualification;
- Detail a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- Detail any control weakness considered by the Head of Internal Audit to be relevant to the preparation of the AGS;
- Provide a summary of the work undertaken during the year to support the opinion, including any reliance placed on the work of other assurance bodies;
- Provide an overall summary of the performance of the Internal Audit Service against its performance indicators; and
- Detail the results of the internal audit quality assurance programme, including details of compliance with Internal Audit Standards.

- 1.3 This report satisfies this requirement.

3. Current position/findings

- 3.1 The attached report contains the annual opinion of the Head of Internal Audit and the outcomes of Internal Audit performance measures and QAIP.

4. Proposed action

- 4.1 For the Audit Committee to review the Head of Internal Audit's annual opinion.

5. Issues and Risks

- 5.1 **Resource implications** –there are no resource implications arising from this report.

- 5.2 **Legal implications** – there are no legal implications arising from this report.

- 5.3 **Equality implications** – there are no equality implications arising from this report.
- 5.4 **Environmental impact** – there are no impacts on the environment arising from this report.
- 5.5 **Crime and disorder** – there are no impacts upon crime and disorder arising from this report.
- 5.6 **Risks** – Without an annual opinion, the Committee may not know what how effective governance, risk management and control are a the Council.

6. Conclusion

- 6.1 Having considered the audit work for 2023/24 for the Council, the Head of Internal Audit is able to provide Reasonable Assurance in relation to the framework of risk management, governance, and internal control.
- 6.2 The overall performance status for the Contractor performing internal audit for the Council is 'amber'. Action to improve performance is detailed in the attached report.
- 6.3 Regarding the QAIP, the service is compliant with internal audit standards as per the external quality assessment in October 2022, and is reviewing compliance with the new Global Internal audit Standards which come into effect on 1 January 2025.

7. Recommendations

- 7.1 That Members: -
- Receive and consider the contents of the Annual Opinion Report of the Head of Internal Audit.
 - Note that a reasonable / limited audit opinion has been given in relation to the framework of governance, risk management and control for the year ended 31 March 2024.
 - Note that the opinions expressed together with significant matters arising from internal audit work and contained within this report should be given due consideration when developing and reviewing the Council's Annual Governance Statement for 2023/24.
 - Note the outcomes of the Internal Audit's performance measures and the Quality Assurance and Improvement Programme (QAIP).

Background papers

None

Appendices attached to this report:

Appendix A – IA Annual Opinion Report 2023/24

EASTERN INTERNAL AUDIT SERVICES



BROADLAND DISTRICT COUNCIL

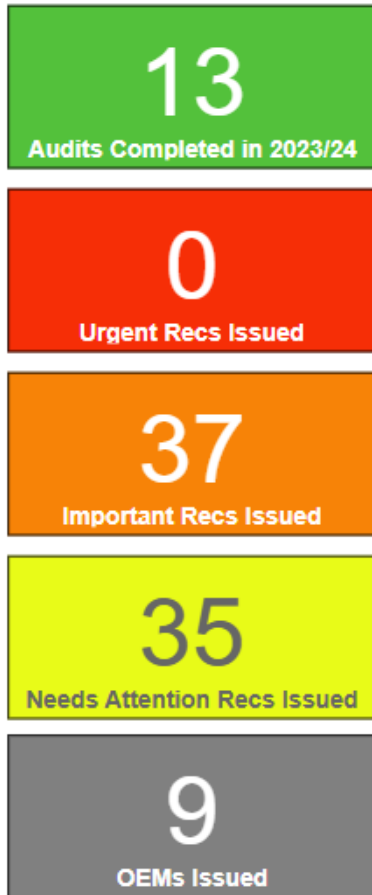
Internal Audit Annual Opinion Report 2023/24

Head of Internal Audit: Teresa Sharman

Contents

	Page
Summary: Internal Audit Work 2023/24	1
Executive Summary:	
Purpose	2
Background	2
Scope of Responsibility	3
Head of Internal Audit Annual Opinion Statement	3
Audit Outcomes	8
Performance Measures Outcomes:	
Internal Audit PM Outcomes	10
KPIs in more detail	11
Actions to Improve	12
Quality Assurance and Improvement Programme (QAIP):	
QAIP	14
Internal Assessments	14
External Assessments	15
Appendix 1 - Summary of Audit Work 2023/24	16
Appendix 2 - Summary of Audit Opinions	18

Summary: Internal Audit Work 2023/24



HOIA opinion: – Reasonable
10 positive opinions of which 4 were 'Substantial'
2 'limited' opinions

Executive Summary

Purpose

The Head of Internal Audit should provide an annual report, detailing its opinion on the framework of governance, risk management and control, to those charged with governance to support the Council's Annual Governance Statement (AGS).

This report should include the following: -

- An opinion on the overall adequacy and effectiveness of the Council's governance, risk management and internal control environment;
- Disclose any qualifications to that opinion, together with the reasons for the qualification;
- Detail a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- Any control weakness considered by the Head of Internal Audit to be relevant to the preparation of the AGS;
- A summary of the work undertaken during the year to support the opinion, including any reliance placed on the work of other assurance bodies;
- An overall summary of the performance of the Internal Audit Service against its performance indicators; and
- The results of the internal audit quality assurance programme, including details of compliance with Internal Audit Standards.

The purpose of this report is to satisfy this requirement and Members are asked to note its content.

Background

The Internal Audit Service for the Council is provided by the Consortium, Eastern Internal Audit Services, hosted by South Norfolk Council, which utilises the services of a contractor, TIAA Ltd.

All audit work is completed in accordance with the International Professional Practices Framework of the Chartered Institute of Internal Auditors, directed by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note 2019.

Internal audit provides an independent and objective opinion on the Council's internal controls by evaluation their effectiveness and operation in practice.

Scope of Responsibility

The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions, and which includes arrangements for the management of risk.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

This opinion statement is provided for the use of the Council in support of its AGS for the year ended 31 March 2024.

Head of Internal Audit Annual Opinion Statement

Opinion

In summary: -

I have considered the audit work for 2023/24 for the Council and am able to provide **Reasonable Assurance** in relation to the framework of risk management, governance, and internal control.

In detail: -

My opinion is based on the audit work completed in 2023/24, which resulted in mostly positive opinions, other third-party assurances, the relative materiality of the issues arising from audit work as well as management's progress in addressing any control weaknesses identified. There are some areas which require the introduction or improvement of internal controls to ensure the achievement of the Council's objectives where limited assurance was provided and important recommendations made.

In arriving at my overall annual opinion: -

- I have considered the third-party assurance from the Cabinet Office regarding the Council's connection to the Public Services Network (PSN) as detailed below which provides assurance on the Council's infrastructure security.
- I have considered the outcomes of all audits completed in 2023/24, particularly, the two 'limited' assurance opinions as detailed below.
- I have considered management's progress with addressing outstanding recommendations from previous years as detailed below.

Third party assurances

PSN connection

The Council had its compliance reviewed and a certificate issued by the Cabinet Office having demonstrated that its infrastructure was sufficiently secure to connect to the PSN during the period 4 August 2023 to 24 August 2024.

Limited opinions

Two limited assurance opinions have been issued in draft in 2023/24 and key control weaknesses were identified as detailed below. These control weaknesses represent unresolved risks and should be considered for inclusion within the Council's Annual Governance Statement where the recommendations to address these remain outstanding at year end.

Key Controls and Assurance (Draft report issued 1 July 2024)

This audit focused on the key controls within housing benefits and council tax support, council tax and National Non-Domestic Rates (NNDR), Accounts Payable and the Annual Governance Statement (AGS).

Ten important recommendations have been made which are currently with management for responses.

These recommendations relate to raising of purchase orders and verification checks on suppliers; potential risks therefore are budget overspends due to unauthorised committed expenditure and increased risk of supplier fraud and false payments.

The other recommendations relate to reconciliations between the housing benefits system and the general ledger (there are also outstanding recommendations from the BRD/SNC2307 and 2308 housing benefits and council tax reports for these as well), exemptions/discounts for council tax and NNDR, quality checks in relation to NNDR and council tax, and the completion of reconciliations between the reports from the Valuation Agency Office and the council tax system.

Potential risks therefore are the impact on the integrity and accuracy of data on these systems which could lead to error or fraud not being identified and corrected and financial loss.

The due dates for management action have not been agreed yet.

Accounts Receivable and Income (Draft report issued 8 July 2024)

Six important recommendations have been made which are currently with management for responses.

These recommendations relate to the completion of debt recovery action, debt write off approval, raising credit notes and their approval and approval limits, and the various reconciliations that are completed for income received to the bank and other systems and their review.

Potential risks therefore are the impact on the ability of the Council to receive all the income it is due and to detect errors and fraud.

The due dates for management action have not been agreed yet.

Outstanding Recommendations

In relation to the follow up of management actions, to ensure that they have been effectively implemented, the position at year end 2023/24 is that 25 recommendations crossing the years 2020/21 to 2023/24 were outstanding as the table below details which has been accounted for in my overall annual opinion: -

Audit Year	No. Outstanding	No. of Urgent	No. of Important	No. of Needs Attention
2020/21	1	0	1	0
2021/22	2	0	0	2
2022/23	10	1	5	4
2023/24	13	0	4	9
Total	26	1	10	15

2022/23 urgent recommendation

The urgent outstanding recommendation relates to the 2022/23 Procurement and Contract Management audit and remains outstanding currently. This recommendation requires a review of all current contracts to ensure all key documentation is located, and all records held centrally by the Council and accessible by Breckland Procurement Consortium staff, with copies to be obtained from the provider if they cannot be located, and then for Management implement controls to ensure all the required documentation is retained, and accessible, moving forward. The due date for this recommendation has been revised to June 2024. Management have informed that a new central Teams / Sharepoint site has been created to act as a repository for all signed contracts. Contract managers have placed copies of the significant signed contracts which are held here. Work is still ongoing to find contracts where the paperwork has not yet been located.

2020/21 Important recommendations

The important recommendation outstanding from 2020/21 relates to Payroll and HR audit. This recommendation remains outstanding but will be reviewed in full during the payroll audit which is taking place in quarter 1 of the 2024/25 Internal Audit Plan.

2021/22 important recommendations

Three of these recommendations relate to the housing benefits and council tax reports referred to above. The other two relate to the Key Control and Assurance audit are in relation to the various income reconciliations that are completed. These recommendations are due to be closed but note the comments above in Accounts Receivable and Income in relation to the recommendations in this area.

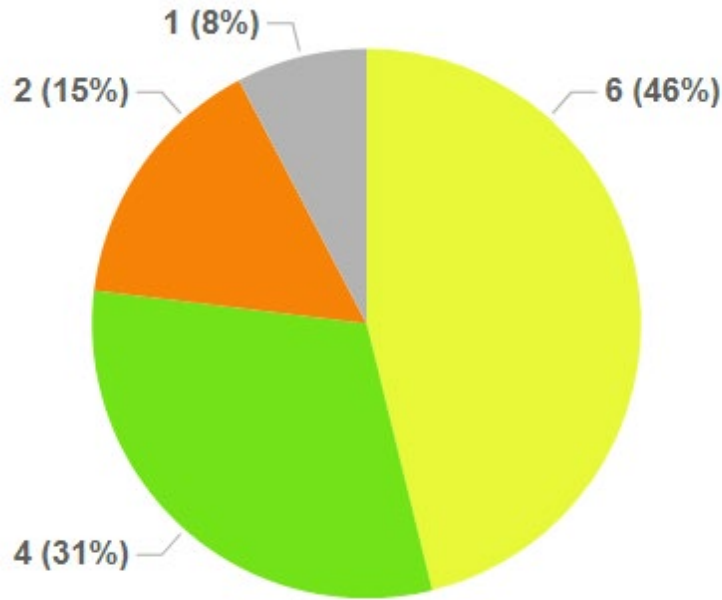
2021/22 Needs attention recommendations

The two needs attention recommendations in 2021/22 relate to the Income and Performance Management and Business Planning audits. Both recommendations are currently still outstanding with revised due dates, but this date has now passed for the Income recommendation.

Please refer to the separate Internal Audit Progress and Follow Up report for July 2024, which shows the details of the progress made to date in relation to the implementation of agreed recommendations, and which also provides an update from management regarding all outstanding recommendations.

Audit Outcomes

Below is the spread of audit opinions across audit work completed in 2023/24, One of the 13 audits was advisory work. For a detailed summary of audit work completed, please refer to Appendix 1.



Audit work in 2023/24 covered corporate areas, service areas, governance, housing and homelessness, IT systems and finance systems,

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed, and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed, and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed, and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.
Position Statement	Advisory work and Follow Up.

Appendix 2 shows the assurances provided over previous and current audit years to provide an overall picture of the control environment.

Performance Measures Outcomes

Internal Audit PM Outcomes

Detailed below are the outcomes of Internal Audit's performance measures which relate to the performance of the contractor delivering internal audits for the Council. With only six PIs met, the overall performance status is 'Amber'. Other than KPI 1 which is measured annually and KPIs 6 and 8 which are measured continuously, all KPIs are measured quarterly.

Overall Performance Status		Amber
KPI Ref.	Description	Outcome
Senior Management		
KPI 1	S151, S17 Satisfaction, annually minimum good.	Below Expected
Internal Audit Process		
KPI 2	APM issued minimum 20 working days before agreed start date of each review – 90% quarterly.	X
KPI 3	Quarterly draft reports issued within 10 working days of the end of the quarter – 95% quarterly.	X
KPI 4	Quarterly final reports issued 20 working days of the end of the quarter – 95% quarterly	X
KPI 5	Quarterly performance pack reported to the Contract Manager within 15 working days of the end of the quarter	✓
KPI 6	Respond to the Contract Manager within 3 working days where unsatisfactory feedback has been received.	✓
KPI 7	PSIAS compliance – Deep dive review of files indicates good quality evidence saved on file – 100%. Four files per quarter	Not completed

Clients		
KPI 8	Average feedback scores from key clients, quarterly minimum average.	✓
Innovation and Capabilities		
KPI 9	Percentage of recommendations accepted by management 90% overall.	✓
KPI 10	Percentage of qualified / experienced staff working on the contract each quarter – 60%	✓
KPI 11	Number of training hours per member of staff completed each quarter – minimum 1 day per quarter.	✓

KPIs in more detail

Operational KPIs

The table below shows the outcomes of the operational KPIs 2, 3, 4 and 8 in more detail: -

KPI 2 (Issue of APMs)	KPI 3 (Issue of Drafts)
7 out of 13 on time	1 out of 13 on time
KPI 8 (Feedback)	KPI 4 (Issue of Finals)
5 out of 13 returned	0 out of 13 on time

For KPI 8, the average feedback score from the four returned surveys was 5, good. The range for the possible scores is, 6 - excellent and 1 – poor.

KPI 7 – PSIAS compliance - deep dive review of files

Regarding KPI 7, compliance with PSIAS deep dive review of files, this was not completed by my predecessor in quarters 1 and 2 because insufficient audits had been completed across Consortium clients. This continued to be the case with quarter 4 audits continuing into the quarter 1 of the new audit year, and due to the Head of

Internal Audit only being in post for part of quarter 3 and quarter 4 only, it was decided to not complete any deep dive reviews in 2023/24. However, the Head of Internal Audit reviews and approves the issue of all APMs, draft and final reports and views all completed work programmes. As a result, more detail in audit scopes has been requested in APMs, changes to the draft and final reports have been agreed and testing completed has been questioned along the way.

KPI 1 S151 satisfaction

The S151s' satisfaction, KPI 1, was also deemed to be below that expected when reviewed as a collective at the April 2024 Consortium meeting. These together make the overall performance status 'amber' for 2023/24.

Actions to Improve

As the tables above highlight, the Contractor has not met our targets relating to issuing Audit Planning Memorandums (APMs) and draft and final reports within the set timescales.

Reasons for poor performance

Performance in 2023/24 was affected by the carried forward audit work from the previous audit year as well as delays in audits starting and progressing in year, which has been due to many reasons such as contractor and Council officer sickness, lack of responses from Council officers to communication from the Contractor, lack of escalation by the Contractor to the Head of Internal Audit or S151s when responses are not received and audits are delayed; therefore, both Council officers and the Contractor have been responsible for this situation.

As a result, the 10% quality payment, which is withheld until the end of the year annually, was adjusted accordingly and not paid in full.

Action to address poor performance

The following action is being taken or considered to improve performance: -

- To prevent a delay to the delivery of quarter 1 audits in 2024/25, the Contractor has appointed another team to complete these audits.

- A Protocol, 'a ways of working together' and expectations of Council officers and the Contractor has been outlined and issued to ensure that audits are completed as planned in 2024/25 without delay. This includes timescales for responding and escalation action.
- As the Contractor does not have exclusivity, consideration is being given to engaging with another contractor to complete some audits during 2024/25.
- The Contractor is appointing another Client Manager on the contract as one of the current managers is part time. This will help ensure that all audit work is progressed timely. In addition, more auditors are recruited.

Quality Assurance and Improvement Programme (QAIP)

QAIP

To comply with Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit is required to develop and maintain an ongoing quality assurance and improvement programme (QAIP) which must include both internal and external assessments. There are three requirements as follows: -

- Ongoing monitoring of the performance of the internal audit activity. This refers to the day-to-day supervision, review and measurement of internal audit activity that is built into policies and routine procedures. The day-to-day monitoring of audit engagement is completed by the Contractor and progress with audit work and plans are monitored by the EIAS through weekly operational and quarterly performance meetings with the Contractor, and by review and approval of audit outputs, as well as by an evaluation of the Contractor's performance against our suite of KPIs.
- Periodic self-assessments to assess conformance with the International Professional Practices Framework (IPPF) that includes the Definition of Internal Auditing, the Core Principles, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. A self-assessment is completed annually.
- External assessments of conformance to the IPPF once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

The results of the QAIP are reported to the Audit Committee each year as part of this annual report.

The Internal Audit Team within EIAS maintain a QAIP which covers internal and external assessments and was detailed within your Strategic and Annual Plan Report 2024/25 to 2026/27.

Internal Assessment

A checklist for conformance with the PSIAS and the CIPFA Local Government Application Note 2019 was completed for 2020/21 and is reviewed for continuing compliance annually. This is a self-assessment which evaluates conformance with the PSIAS.

This annual self-assessment has not been completed in 2023/24. This is because the Global Internal Audit Standards (GIAS) have been released and will become effective on 1 January 2025. Our focus is now on completing a self-assessment against these to identify any gaps in conformance so that these can be addressed, and a report will be provided to the Audit Committee during 2024/25 on our conformance. A CIPFA version for the Public Sector is expected during 2024.

(Note: the PSIAs are based on the mandatory elements of the IPPF).

External Assessment

An external quality assessment (EQA) evaluates conformance with the IPPF.

An EQA was carried out in October 2022 by the Chartered Institute of Internal Auditors (IIA). The Internal Audit Service received a 'generally conforms' result, with conformance in 60 out of 64 areas (two areas were not applicable, and two resulted in 'partially conforms').

Progress with actions

One area of partial conformance was highlighted in coordinating and maximising assurance. Within the Strategic and Annual Plans report for the audit year 2023/24 presented in March 2023, an Assurance Map was provided, outlining the then top risks, along with first, second and third lines of assurance. This was not repeated for the 2024/25 audit year. It has been proposed to complete detailed assurance maps for at least one of the Council's corporate risks.

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. This will be ensured at the five-year anniversary in 2027.

Summary of Internal Audit Work 2023/24

Appendix 1

Audit Area	Status	Opinion	Total Recs	Urgent	Important	Needs Attention	OEMs	Suggested Actions
Surveillance and Investigatory Powers	Final	Substantial	1	0	0	1	1	N/a
Waste Management	Final	Substantial	1	0	0	1	0	N/a
Planning and Development Management	Final	Substantial	1	0	0	1	0	N/a
Service Desk	Final	Substantial	4	0	0	4	2	N/a
Homelessness and Home Options	Final	Reasonable	5	0	4	1	0	N/a
FOIs and Complaints	Final	Reasonable	11	0	2	9	1	N/a
Corporate Governance incl. GDPR	Final	Reasonable	4	0	1	3	0	N/a
Legal Services	Final	Reasonable	9	0	5	4	2	N/a
Help Hub	Final	Reasonable	11	0	6	5	1	N/a
Accountancy Services	Final	Reasonable	7	0	3	4	0	N/a
Key Controls and Assurance	Draft	Limited	10	0	10	0	0	N/a
Accounts Receivable/Income	Draft	Limited	8	0	6	2	2	N/a
Project Management	Final	Position Statement	N/a	N/a	N/a	N/a	N/a	7
Cyber Security and Disaster Recovery	N/a	Deferred	N/a	N/a	N/a	N/a	N/a	N/a
Nutrient Neutrality	N/a	Deferred	N/a	N/a	N/a	N/a	N/a	N/a
Housing Strategy	N/a	Deferred	N/a	N/a	N/a	N/a	N/a	N/a

(Note: OEMs are Operational - Effectiveness Matter)

Grant Certifications

The following grants were certified by EIAS during 2023/24: -

- Food Waste Collection Declaration P/e 2023/24
- Disabled Facilities Capital Grants P/e 2022/23
- Local Authority Delivery Phase 3 (LAD3) P/e 31 March 2023
- Homes Upgrade Grant (HUG 1) P/e 31 March 2023

For Your Information: -

Urgent – Priority 1	Fundamental control issue on which action to implement should be taken within 1 month.
Important - Priority 2	Control issue on which action to implement should be taken within 3 months.
Needs Attention – Priority 3	Control issue on which action to implement should be taken within 6 months.

Audit Opinions by Year

The following chart shows the audit opinions over the last six years: -

