



Draft internal audit annual report and opinion 2022/23

DRAFT INTERNAL AUDIT OPINION

Based upon the internal audit work undertaken it is my opinion that the Council's framework of governance, risk management and control as of 31 March 2023 provides **satisfactory assurance** over key business processes and financial systems.

David Harwood
Interim Internal Audit Manager

March 2023

1. INTRODUCTION

- 1.1 This is the annual report of the interim internal audit manager (IIAM) as required by the Public Sector Internal Audit Standards (PSIAS). It covers the year ending 31 March 2023.
- 1.2 The report includes the IIAM annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control processes (see Annex A). The opinion is based upon the work that has been carried out by Internal Audit during the year.
- 1.3 The report provides information on:
- The delivery of the internal audit plan.
 - Work performed.
 - Introducing agreed actions.
 - Internal Audits performance.
 - The quality assessment and improvement programme (QAIP).
 - Future service provision.

2. DRAFT OPINION

Draft internal audit opinion.

Based upon the internal audit work undertaken it is my opinion that the Council's framework of governance, risk management and control as of 31 March 2023 provides **satisfactory assurance*** over key business processes and financial systems.

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*Note: Assurance definitions are explained at Annex A.

- 2.1 Assurance can never be absolute. The opinion reflects the IIAM view on the current state of the governance framework and provides the Committee with an opinion for inclusion in the Annual Governance Statement (AGS).

If significant changes occur to the governance framework prior to the Committee approving the AGS, the Committee will be informed.

- 2.2 The IIAM reports functionally to the Audit Committee and maintains organisational independence. They have had 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.

3. DELIVERY OF THE 2022/23 INTERNAL AUDIT PLAN

- 3.1 The Audit Committee approved the 2023/23 internal audit plan at its March 2022 meeting. It included 12 internal audit reviews together with time allowances to undertake amongst others, follow-up reviews, fraud related work/fraud risk assessment, oversight of the risk management process and delivery of the annual governance statement.
- 3.2 At the request of the interim S151 Officer, two of the 12 reviews have not been undertaken. The remainder of the audit plan has been delivered.
- 3.3 The two audits that have not been undertaken are 1) Savings Plan Delivery and 2) 5C's Contract Management. Both the IIAM and S151 Officer were of the view that the delivery of budget savings was being monitored through the monthly budget monitoring process and little would be gained from internal audit reviewing this area separately. The 5C's Contract Management review has been postponed and will be undertaken during 2023/34.
- 3.4 Two additional reviews have been completed. The use of credit cards and a review of how personal and sensitive data is redacted in respect of both planning applications and pre-planning application advice requests.

4. WORK PERFORMED

- 4.1 Audit reports that have been issue are listed in the table below – grouped by assurance opinion – and showing the number of agreed actions for improvement. (Note: actions from draft reports have not yet been agreed).

Opinion * = final report	Actions for improvement		
	High	Medium	Low
Substantial			
* Treasury Management			1
* Main Accounting Systems (no actions)			
Satisfactory			
* Use of credit cards	1	6	
* Accounts Receivable		3	2
* Fleet Pond Contract Management		3	
* Accounts Payable		2	
<i>Draft Payroll</i>			
<i>Draft IT Controls</i>			
<i>Draft Council Tax / Business Rates</i>			
<i>Draft Housing Benefit</i>			
Limited			
<i>Draft Procurement</i>			
None	No reports have been issued at the lowest assurance level.		

- 4.2 At its October 2022 the Audit Committee were informed that the Executive Director, Place had requested a review be undertaken into the processes followed by the Place regulatory team for the redaction (under data protection legislation) of both personal and sensitive information that may be included in documents received in respect of planning applications and pre-application advice requests. No opinion was issued at the conclusion of this review. The review was advisory in nature and limited testing was undertaken. A number of areas for improvement were identified.
- 4.3 There are no matters of concern that the IIAM wishes to bring to the attention of the Audit Committee arising from the six internal audit reports that have been closed. If there are any matters of concern arising from the reports that are currently in draft they will be included in the final version of this report.
- 4.4 No summaries of the internal audit findings are included in the report. Full copies of internal audit reports issued are circulated to the Audit Committee at the closure of a review.
- 4.5 There remains one internal audit report outstanding from the 2021/22 plan. A report on the management and monitoring of planning applications was issued in draft in September 2022. A revised draft following management comment was issued in February 2023. The audit has been given a satisfactory assurance opinion, and contains 3 medium and 3 low risk issues.
- 4.6 The Audit Committee considered the findings of the Shapley Heath internal audit report at their July meeting. The report had been commissioned by the Audit Committee. It contained 11 recommendations. Due to the nature of the report's findings the Audit Committee asked Cabinet, rather than management, to provide a response to the recommendations. They also asked the Staff Committee to review the exercise of management oversight and asked that a formal response be provided to them. At the time of writing this report, responses are still outstanding. Dependent on the response and the action that has been taken to implement the 11 recommendations, it may be necessary to review the annual opinion statement.
- 4.7 In addition to delivery of the audit plan internal audit has also been involved in a number of governance areas. These include:
- Reviewing the progress that has been made to introduce the actions arising from the 2021 fraud risk assessment.
 - Delivering three fraud training sessions to 117 staff in February/March 2023.
 - Reviewing and updating the local code of corporate governance.
 - Preparing the 2021/22 annual governance statement.
 - Updating the Whistleblowing Policy, subsequently approved by Cabinet in July 2023.
 - Updating the risk management policy.
 - Overseeing the process for the updating of the corporate risk register.
 - Updating the Internal Audit Charter.

- Drafting proposals for the appointment of independent persons to the Audit Committee.
- Updating the Audit Committee terms of reference, to reflect the July 2022 CIPFA Audit Committee Position Statement.
- Introducing new internal audit working papers and report format to improve both quality assurance reviews and the reporting process.
- Acting as the key contact for the Cabinet Office' National Fraud Initiative. Datasets were uploaded to the NFI database in November 2022.

4.8 As of the 14 March 2023, 14 fraud referrals have been received. 11 related to benefit fraud issues and were referred to Capita for review. Two of the remaining three relate to planning enforcement and the housing waiting list. They are not employee related. The final referral was received shortly prior to this reports publication. Investigations have not been completed.

4.9 43 housing benefit and council tax support cases have been investigated by Capita. These have resulted in overpayments totalling £7.9k being identified.

4.10 The NFI released potential fraud cases in January 2023. There were 119 matches covering duplicate creditors, VAT overpayments, company directorships, payroll to payroll and payroll to pensions. All but two of these matches have been reviewed and closed as requiring no further action. The two outstanding matches refer to potential duplicate payments and are still being investigated.

There were 101 NFI matches relating to potential Housing Benefit and Council Tax Reduction Scheme fraud. These are being investigated by Capita. The outcome of their review will be reported to the Audit Committee at a future date.

5. INTRODUCING AGREED ACTIONS

5.1 Best practice is for follow-up reviews to be undertaken routinely to consider the effectiveness of the steps that management have taken to introduce agreed audit actions. Presently only high-risk actions are followed-up. This is a weakness that needs to be addressed.

5.2 Two high risk actions had implementation dates that fell during 2022/23.

Main accounting system 2021/22. Action introduced.

The action required evidence to be provided that a) back up processes are carried out daily/weekly, b) data is taken off site weekly and securely stored and c) a recovery plan is in place, which has been successfully tested in the last year. Evidence has been provided to show that all three of the tasks are regularly carried out.

IT Controls 2021/22. Outstanding.

The agreed action was for guidance to be given to managers/system administrators working in service areas to ensure that they were fully aware of

their responsibilities. The February 2023 internal audit review found that system administrators were clear on their roles and responsibilities. Areas such as patch management, system updates, system access, that the Audit Committee has previously discussed were being managed satisfactorily. There remains the need for procedure notes to be prepared however so that the actions and tasks that are required to be done are properly documented.

6. INTERNAL AUDIT PERFORMANCE

6.1 The internal audit service is measured against two corporate performance indicators.

1. Percentage of the [agreed] audit plan completed during the year.
Target 100%. Achieved 100%
2. Percentage of high risk agreed actions implemented. (Two fell due in the reporting period – see 5.2 above).
Target 100%. Achieved 50%

7. QUALITY ASSESSMENT AND IMPROVEMENT PROGRAMME

7.1 The PSIAS require the IIAM to develop and maintain a quality assurance and improvement programme (QAIP) which needs to be sufficiently comprehensive to encompass all aspects of internal audits operation and management, and which once in place, should allow them to provide reasonable assurance that internal audit:

- Performs its work in accordance with its Charter and in conformance with the PSIAS.
- Operates in an effective and efficient manner.
- Is perceived as adding value and continuously improving.

Furthermore, the PSIAS includes a requirement for periodic self-assessments and external assessments at least once every five years by a qualified, independent assessor from outside the Council.

7.2 Internal audit do not have a formal QAIP document. This is understandable considering that the majority of internal audit reviews conducted during 2022/23 (and in previous years) have been undertaken by internal auditors from Basingstoke & Deane Borough Council and/or Wokingham District Council. It is appropriate to consider their compliance with PSIAS.

Basingstoke & Deane District Council

The Chief Internal Auditor at Basingstoke & Deane (B&D) reported in their 2021/22 annual report to the B&D Audit & Accounts Committee in June 2022 that they “...carried out a self-assessment against the Public Sector Internal Audit Standard (PSIAS) checklist. The outcome of this assessment has been discussed with the Chief Financial Officer who concluded “I am satisfied that this is an accurate assessment of the internal audit function”.

The self-assessment reported no areas of non-conformance.

Wokingham Borough Council

The Deputy Chief Executive at Wokingham reported in their 2021/22 annual report to the Wokingham Audit Committee in June 2022 that “the last external inspection...against PSIAS took place in 2018 and assessed the service as ‘generally’ conforming to the standards (the top category of opinion’.

However the annual report makes no reference to the outcome of any self-assessment since that date or whether the ‘generally’ conforming assessment is still applicable.

- 7.3 A number of the processes and procedures that are associated with a QAIP are in place, such as:
- An annual audit plan.
 - Structured planning and fieldwork working papers.
 - The formal review and sign off to both draft and final audit reports.
 - Regular reporting to the Audit Committee of progress in delivering the internal audit plan.
- 7.4 Taking all of the above into account, the IIAM is of the opinion that whilst a formal documented QAIP process is not in place, there is sufficient evidence to suggest that Internal Audit is being delivered in ‘partial conformance’ with the PSIAS, rather than ‘non-conformance’. Consequently they do not consider that this matter needs to be included in the Council’s AGS.

8. FUTURE SERVICE DELIVERY

- 8.1 The Council employs no internal audit staff directly. The IIAM is an agency worker contracted to the Council until 31 March 2023. Internal audits are delivered by internal auditors employed by Basingstoke & Deane BC or Wokingham BC under an agreement that expires on 31 March 2023. The decision to end these agreements has allowed the Corporate Director, Resources to consider other public sector arrangements for internal audit delivery.
- 8.2 The IIAM led a project during 2022/23 to outsource the internal audit service from April 2023. Outsourcing was required to be delivered as part of the Council’s approved budget savings plan. Southern Internal Audit Partnership (SIAP) will be delivering the internal audit service from April 2023 including the Internal Audit Manager function.

SIAP employ more than 40 internal auditors (including IT and fraud specialists) and deliver internal audit services to more than 20 public sector organisations. Their last independent external QAIP assessment was undertaken in September 2020 by the Chartered Institute of Internal Auditors who reported that SIAP fully conform with the PSIAS.

Internal control environment

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

- establishing and monitoring the achievement of the authorities objectives and the facilitation of policy and decision-making.
- ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate based upon their roles and responsibilities.
- 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 and performance management of the authority and the reporting of the same.
- The design, implementation, testing and modification of controls in specific systems, to provide assurance at the corporate level that the authority is operating efficiently and effectively.

Internal audit reports: assurance definitions

Substantial assurance	The internal controls in place are applied consistently to enable the achievement of the intended objective.
Satisfactory assurance	The internal controls are in place but some minor lapses have been identified but these still allow the general objectives to be achieved.
Limited assurance	The internal controls in place are not always applied and objectives may not be achieved, meaning the Council is exposed to the risk of financial loss, fraud or the loss of reputation.
No assurance	Weaknesses in internal control has resulted in a failure to achieve objectives.

End