

Head of Internal Audit Annual Report 2024/25



Report to: Audit and Standards Committee

Date: 26 June 2024

Lead Officer: Sarah Marsh, Head of Internal Audit (01279) 446884

Executive Summary

- A** This document summarises the results of internal audit work during 2023/24 and, as required by the Accounts and Audit (England) Regulations 2015, gives the Head of Internal Audit's overall opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes.
- B** Based upon the results of work undertaken during the year, it is the Head of Internal Audit's overall opinion that the Council has in place adequate and effective governance, risk management arrangements and control processes. Where there have been significant issues these have been accepted by Management and promptly corrected.

Recommended that:

- A** The Committee notes the Internal Audit Annual report and the Head of Internal Audit's opinion and is considered in conjunction with the Annual Governance Statement 2023/24.

Reason for decision

- A** As required by the Accounts and Audit (England) Regulations 2015, section 5(1) - 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.

Other Options

- A** None.

Background

1. This report outlines the work undertaken by Internal Audit during the 2023/24 year and covering the period 1 April 2023 to 31 March 2024.
2. Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Internal Audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. On behalf of the Council, Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of these arrangements.
3. Internal Audit is required by professional standards to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:
 - the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
4. The primary role of Internal Audit is to provide assurance to the Council (Corporate Leadership Team, Assistant Directors and the Audit and Standards Committee) and ultimately the taxpayers that the Council maintains an effective control environment that enables it to manage its significant organisational risks. Internal Audit helps the Council achieve its objectives and provide assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of the Council's control environment which feeds into the Annual Governance Statement.

Overall Opinion

5. In assessing the level of assurance to be given, the Head of Internal Audit has taken into account:
 - All reviews completed during the year;
 - Any follow up actions taken in respect of audits from previous periods;
 - High priority recommendations not accepted by management or acted upon and any associated risks (there were none);

- The effect of any significant changes in the Council's objectives, activities or systems (the main change being a new Corporate Plan covering 2024 to 2028);
 - Matters arising from previous reports to the Audit and Standards Committee;
 - Whether any limitations have been placed on the scope of Internal Audit (there have not been any);
 - The extent to which resources constraints may impinge upon the Head of Internal Audit's ability to meet the full audit needs of the Council (some audits were deferred as other priorities took precedence);
 - What proportion of the Council's audit need has been covered to date; and
 - The results of work performed by other assurance providers including the work of the External Auditors
6. In giving an opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the organisation is a reasonable assurance there are no major weaknesses in the Council's risk management, control and governance processes.
 7. The Head of Internal Audit is satisfied that sufficient internal audit work has been undertaken to allow a reasonable conclusion as to the adequacy and effectiveness (or inadequacy and ineffectiveness) of the Council's risk management, control and governance processes to be drawn.
 8. Based upon the results of work undertaken during the year, it is the Head of Internal Audit's overall opinion that the Council has in place adequate and effective governance, risk management arrangements and control processes. Where there have been significant issues these have been accepted by Management and promptly corrected.

Internal Audit Work During 2023/24

9. The 2023/24 Internal Audit Plan was presented to and agreed by the Audit and Standards Committee in March 2023. The plan was prepared based on the risks associated with the Council's objectives in consultation with key officers and took into account:
 - knowledge and experience accumulated in Internal Audit, including the results of previous reviews;
 - a review of audit themes against the Corporate risk register and Council priorities;
 - the work of other assurance providers both internally and externally;

- the external environment including economic climate, and government initiatives such as Levelling Up and changes in funding; and
- harmonisation of themes with the Borough of Broxbourne Council , St Albans City & District and Epping Forest District Council to enable benchmarking and sharing of good practice.

10. At the end of each assurance review a report is issued giving a formal audit assurance rating. This rating is based on an assessment of the key management arrangements and internal controls in place and measured using the following scale:

- ‘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 (this was previously entitled ‘moderate’ assurance) - There is a generally sound system of governance, risk management and control in place. Some issues, noncompliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. (Any high priority recommendations will prevent this level of assessment);
- ‘Limited’ assurance – Significant gaps, weaknesses or noncompliance 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; and
- ‘No’ assurance – Immediate action is required to address fundamental gaps, weaknesses or noncompliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Summary of Assurance Work

11. A total of five audit reports were issued as part of the 2023/24 Plan, all being formal assurance (audit) reviews. The reasonable assurance reports tend to relate to a specific area rather than represent a breakdown of controls across the Council. No limited assurance reports were issued. The table below provides a comparison between the 2023/24 and previous four financial years:

Assurance	2023/24	2022/23	2021/22	2020/21	2019/20
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rating					
Substantial	3	2	2	2	4
Reasonable	2	4	3	5	6
Limited	0	0	2	2	1
No	0	0	0	0	0
TOTAL	5	6	7	9	11

12. Appendix A sets out work carried out by Internal Audit during the year in narrative form and compares this to the plan agreed by Audit and Standards Committee in March 2023. This summary includes individual audit reviews, investigations, consultancy and advice and other internal audit engagement activities with the Council.
13. Appendix B lists the individual audit reports issued as part of the 2023/24 Plan with their assurance rating and number of recommendations made by risk priority.

Tracker process

14. Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. Recommendation categories are linked to risk and, in order of priority, are rated 'high', 'medium' and 'low'.
15. Reports on progress of the management implementation of agreed recommendations are actively monitored by the Corporate Leadership Team. The Audit and Standards Committee receives a report of all overdue recommendations plus any fundamental recommendations from final reports issued, regardless whether they are overdue or not.
16. The process continues to work well, Internal Audit works with managers to ensure adequate progress is being made and there are no significant issues to report regarding the implementation of audit recommendations.

Other Sources of Assurance

17. The opinion given in this annual report does not rely solely on the formal audits undertaken by the section.
18. *Special investigations:* Internal Audit investigates any allegations of fraud and suspected irregularity and whistleblowing allegations where fraud is suspected. There are separate arrangements for reporting, investigating, and dealing with benefits fraud. A record is maintained of all reported and alleged fraud and theft with a summary reported annually to the Audit and Standards Committee. For 2023/24 there were no significant (estimated at more than £10,000) investigations completed by Internal Audit into suspected fraud.

19. *Advice:* Internal Audit is most effective when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems. This includes Internal Audit sitting on key business groups which in 2023/24 included:
 - Corporate Governance Group
 - Information Governance Group
20. Internal Audit has also provided advice regarding implementation of the new HR/payroll system (iTrent), helped the Council move forward with their service planning and risk management processes.
21. In addition, Internal Audit raises awareness of control issues throughout the Council, helps in the review of key governance documents and co-ordinates the production and analysis of service assurance statements which feeds into the Annual Governance Statement.
22. *Anti-Fraud and Corruption work:* Harlow Council participates in the National Fraud Initiative which is a data matching exercise run annually by the Cabinet Office. The exercise seeks to identify fraud spanning public bodies and Internal Audit is the key point of contact and facilitates and supports the Council's involvement. Internal Audit monitors and analyses data from the on line fraud reporting form, to identify trends and possible areas for improvement.
23. Internal Audit continued to be an active member of the Corporate Fraud Group, sharing good practice seen elsewhere and helping to deliver anti-fraud initiatives which supports the Council's anti-fraud and corruption strategy which was approved at the November 2023 Audit and Standards Committee.

Effectiveness

24. In line with good practice, the Internal Audit service should on an annual basis ensure it is compliant with the 2017 Public Sector Internal Audit Standards (PSIAS), notifying the Audit and Standards Committee of any areas of non-compliance.
25. This is supplemented by an External Quality Assessment (EQA), which, in line with the PSIAS, must be conducted every five years by a qualified, independent assessor from outside the Council. This was undertaken in March 2023 and covered the four councils in the shared service. It confirmed the Internal Audit service conforms to the Public Sector Internal Audit Standards and the results communicated to the November 2023 Audit and Standards Committee.
26. Work is in progress to ensure the Internal Audit service is compliant with the Global Internal Audit Standards which were published in January 2024, and become effective on 9 January 2025. An action plan will be developed if there are any gaps or further development required and communicated to the Audit and Standards Committee.

27. Performance indicators are in place to monitor service performance and reported annually to the Audit and Standards Committee and summarised below with a comparison with last years' results.

Aspect of Service	Performance Indicator	Target	Year End 2023/24	Year End 2022/23
Audit Plan	<ul style="list-style-type: none"> Achievement of the annual Plan 	<ul style="list-style-type: none"> Sufficient internal audit work in order that the Head of Internal Audit can give their annual opinion. 	<ul style="list-style-type: none"> Achieved 	<ul style="list-style-type: none"> Achieved
Internal Audit processes	<ul style="list-style-type: none"> Issue of draft report after closing meeting 	<ul style="list-style-type: none"> Within 10 working days 	<ul style="list-style-type: none"> 2 days 	<ul style="list-style-type: none"> 3 days
	<ul style="list-style-type: none"> Issue of final report after agreement with client to draft 	<ul style="list-style-type: none"> Within 5 working days 	<ul style="list-style-type: none"> 4 days 	<ul style="list-style-type: none"> 11 days
Effective management engagement	<ul style="list-style-type: none"> Management responses within 10 working days of draft report 	<ul style="list-style-type: none"> 10 working days 	<ul style="list-style-type: none"> 2 days 	<ul style="list-style-type: none"> 11 days
	<ul style="list-style-type: none"> Implementation of agreed audit recommendations 	<ul style="list-style-type: none"> Within agreed timescales 	<ul style="list-style-type: none"> Largely met (as reported via the tracker) 	<ul style="list-style-type: none"> Largely met (as reported via the tracker)
Continuous Professional Development (CPD)	<ul style="list-style-type: none"> Auditors maintain and improve their knowledge, skills and other competencies through directed and self-directed activities 	<ul style="list-style-type: none"> 40 hours of CPD activity per auditor 	<ul style="list-style-type: none"> Target for 2023/24 achieved 	<ul style="list-style-type: none"> Target for 2022/23 achieved

28. Internal Audit staff participate in Continuous Professional Development including keeping abreast of best professional practice. Members of the Internal Audit team participate in various networking groups including the Essex Audit Group, the Midland Audit Group, and the London Audit Group, where speakers on topical issues give presentations. There are also close working relationships with other councils.

Proposal

29. The Committee notes the Internal Audit Annual report and the Head of Internal Audit's opinion considering it in conjunction with the Annual Governance Statement 2023/24.

Implications

Equalities and Diversity

None.

Climate Change

None.

Finance

The results of this report and the Head of Internal Audit's overall opinion provide sources of assurance for the Annual Governance Statement.

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Governance

The review ensures that the Council fulfils the requirements of the Accounts & Audit Regulations (England) 2015.

Author: Julie Galvin, Legal Services Manager and Monitoring Officer

Appendices

Appendix A – Internal Audit 2023/24 completed work plan

Appendix B – Audit Report Monitoring 2023/24

Background Papers

None

Glossary of terms/abbreviations used

PSISA – Public Sector Internal Audit Standards

EQA – External Quality Assessment