



# **PETERLEE TOWN COUNCIL MEETING**

**26 June 2023**

## **INTERNAL AUDIT ANNUAL REPORT 2022/23**

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### **REPORT OF THE HEAD OF INTERNAL AUDIT**

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#### **Purpose of the Report**

1. The purpose of this report is to present the Annual Internal Audit Report for 2022/23, which is attached as Appendix 2.

#### **Background**

2. This report fulfils the requirements of Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application note for the Chief Internal Auditor and Corporate Fraud Manager to deliver an annual audit opinion and report that can be used by the Committee to inform its Annual Governance Statement.
3. The Annual Opinion makes conclusions on the overall adequacy and effectiveness of the Council's Framework of governance, risk management and control.
4. Based on work undertaken the Chief Internal Auditor and Corporate Fraud Manager is able to provide a Substantial overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2022/23.
5. This Substantial opinion identifies that there is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk
6. There are no adverse implications for the Annual Governance Statement arising from any of the work that Internal Audit has undertaken in 2022/23. All of the risks raised within Internal Audit reports have been accepted. Internal Audit's recommendations, or alternative proposed actions made by Management in response to the risk issues, have been agreed to be implemented. Full implementation of the agreed actions will realise the benefits of the control improvements detailed in each individual audit report.

#### **Recommendation**

7. Members consider the content of the Annual Internal Audit Report and the overall 'Substantial' opinion provided on the adequacy and effectiveness of the Council's control environment for 2022/23.

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**Nicola Cooke, Audit Manager, Tel: 03000 269665**

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**Appendix 1: Risks and Implications**

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**Finance**

The broad programme of work undertaken by Internal Audit supports the Council in maintaining safe and efficient arrangements for the proper administration of its financial affairs.

**Staffing**

None

**Risk**

None

**Equality and Diversity / Public Sector Equality Duty**

None

**Accommodation**

None

**Crime and Disorder**

None

**Human Rights**

None

**Consultation**

None

**Procurement**

None

**Disability Issues**

None

**Legal Implications**

None

**Other Risks**

Control risks identified / considered in relation to reviews undertaken



## **Internal Audit Annual Report 2022-2023**

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## **Introduction**

1. This report summarises work carried out by Durham County Council Internal Audit and Risk Service during 2022/23, as part of the three year Service Level Agreement covering the provision of Internal Audit Services up to 31 March 2023.
2. The report provides assurance on the effectiveness of the Council's control environment, risk management and corporate governance arrangements in place during the year.
3. The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires all relevant bodies to, "make arrangements for the proper administration of their financial affairs and ensure that one of its officers has responsibility for the administration of those affairs".
4. The Accounts and Audit Regulations 2015 require those bodies to "undertake an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control".
5. All Internal Audit work carried out in 2022/23 was in accordance with proper internal audit practices as described within the Public Sector Internal Audit Standards (PSIAS).
6. This report fulfils the requirements of PSIAS and the CIPFA Local Government Application Note for the Chief Internal Auditor and Corporate Fraud Manager to deliver an annual audit opinion and a report that can be used by the Committee to inform its Annual Governance Statement.
7. The report sets out:
  - The annual internal audit opinion on the overall adequacy and effectiveness of the governance, risk and control framework (the control environment).
  - A summary of the audit work carried out from which the opinion is derived.
  - Details of the quality assurance arrangements in place during 2022/23.

## **Service Provided and Audit Methodology**

8. Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
9. The primary objective of Internal Audit is to provide an independent and objective opinion on the Council's control environment which is comprised of the systems of governance, risk management and internal control.
10. The audit strategy to provide independent assurance, is summarised as follows:
  - To carry out planned assurance reviews of the effectiveness of the management of operational risks in all key service activities/systems.
  - To carry out assurance reviews of the management of strategic risks where the effective management of risk is heavily dependent on identified controls.
  - To carry out annual reviews of key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial and non-financial systems.
  - To use a Control Risk Assessment (CRA) methodology to focus audit resources on providing assurance on key controls where there is little or no other independent assurance on their adequacy or effectiveness.

## **Types of Audit Work Carried Out in 2022/23**

### **Assurance Reviews**

11. Assurance reviews are those incorporated into annual audit plans where the CRA methodology is to be applied. They also include service requests to provide assurance on more specific risks within a particular service activity.
12. On completion of each assurance review an opinion on the adequacy and / or the effectiveness of the control framework in place is provided to inform the annual audit opinion.
13. The audit methodology for arriving at audit opinions on individual assurance reviews is attached at **Appendix C**.

### **Advice and Consultancy Work**

14. In addition to planned assurance reviews, provision may also be made in annual audit plans to support service managers by undertaking advice and consultancy type work. The outcomes from this work can also provide assurance on the control framework even though an assurance opinion is not provided on the completion of this work.

### **Counter Fraud Work**

15. Provision is made within audit reviews undertaken to support service managers at an operational level to mitigate the strategic risk of fraud and corruption. Control weaknesses identified when fraud is suspected or proven also impacts on the overall opinion on the adequacy and effectiveness of the internal control system.

## **Audit Quality Assurance framework**

16. The Internal Audit performance and quality framework reflects the requirements of the PSIAS.
17. Key elements of the quality assurance framework operating during 2022/23 include:
  - Independent quality reviews undertaken by Audit Managers as a matter of routine and periodically by the Chief Internal Auditor and Corporate Fraud Manager to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained.
  - Key contacts, determined by the Council, agree the Terms of Reference for each audit review and are able to challenge the findings and content of draft reports prior to them being finalised.
18. A summary of performance against agreed indicators is given in **Appendix A**.
19. As at the 31 March 2023, the 100% of planned work completed indicated that the service achieved 100% of the audit plan against a 90% target.
20. The non-statutory 'guidance' on internal audit for smaller authorities referred to in the Accounts and Audit Regulations 2015 is set out in Section 4 of 'Governance and Accountability for Smaller Authorities in England'. It recommends that in order to deliver an effective internal audit, 'smaller authorities should, at least annually, carry out a review of the effectiveness of their internal audit arrangements'.
21. The PSIAS require that an annual review of the effectiveness of Internal Audit is carried out, with an external assessment every five years. Following a self-assessment by the Interim Chief Internal Auditor and Corporate Fraud Manager, in June 2021, which established that the service continues to conform with the PSIAS, an external quality assessment of the Internal Audit Service's conformance to the Public Sector Internal Audit Standards (PSIAS) and CIPFA Local Government Application Note during 2021/22 was carried in February 2022 by the Chartered Institute of Public and Finance and Accountancy (CIPFA).
22. For 2022/23, with regards to compliance with the key elements of the PSIAS the following matters were considered:
  - The structure and resourcing level, including qualifications and experience of the audit team;
  - The extent of conformance with the PSIAS in producing quality work;
  - Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis;
  - The overall performance of the Internal Audit team.
23. The opinion delivered by CIPFA's external assessment is that **'Durham County Council's Internal Audit Service's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note'**.

24. For 2021/22, this demonstrated that the Section was conforming to the Code's requirements. For 2022/23, a further self-assessment exercise will be carried out.

### **Summary of audit work carried out**

#### ***Assurance Work***

25. Our work programme for the year was determined by the approved Internal Audit Plan. The assurance opinion takes in account the individual opinions provided across all reviews undertaken in year, together with the most recent opinion for those activities not included in the plan in order to provide a better informed opinion on the entire control environment, a summary of which is attached at **Appendix D**.

#### ***Advice and Consultancy Work***

26. All planned reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks. This evaluation and challenge supports the effective and efficient use of resources and VFM.
27. Through our advice and consultancy work we are able to add value pro-actively and reactively.
28. Reactive work involves responding to ad-hoc requests for advice and reviews added to the plan to address new or emerging risks. It also includes responding to potential fraud or irregularities and we ensure that all such incidents are properly investigated and that appropriate action is taken by managers, whether or not fraud or malpractice is proven.
29. A summary of key advice and consultancy work completed during the year is attached at **Appendix B**

### **Key Areas for Opinion**

30. The key areas of the control environment where assurance is required to inform our overall opinion are:
- Financial Management
  - Risk Management
  - Corporate Governance
31. Assurance has been provided on some aspects of key financial systems during the year. Reviews undertaken considered creditors, debtors, income collection and banking, payroll, main accounting and budgetary control.
32. Assurance reviews incorporate a consideration of the Council's Risk and Governance arrangements within each activity inspected.
33. The Council's Strategic Risk Management arrangements were reviewed in year and confirmed that the previous audit recommendations made have been implemented.



### **Audit Opinion Statement**

34. The Council has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.
35. Internal Audit is required to provide an opinion on the Council's risk management, control and governance process.
36. In giving this opinion it should be noted that assurance can never be absolute and therefore only reasonable assurance can be provided that there are no major weaknesses in these processes.
37. In assessing the level of assurance to be given, we based our opinion on:
  - All audits undertaken during the year
  - Follow up action on audit recommendations
  - Any significant recommendations not accepted by management and the consequent risk
  - Limitations which may have been placed on the scope of the internal audit
  - Reliability of other sources of assurance when determining the scope of audit reviews.
38. Based on work undertaken, and in particular that relating to core financial systems, the Chief Internal Auditor and Corporate Fraud Manager is able to provide a Substantial overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2022/23.
39. This Substantial opinion identifies that there is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk
40. Where Internal Audit has identified areas for improvement, recommendations are made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within target dates is high, in many cases there is a time gap between a control weakness being reported and the date determined by management for when the action can practically and realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion. .

## PERFORMANCE INDICATORS

<b>Efficiency</b>		<b>Objective: To provide maximum assurance to inform the annual audit opinion</b>	
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	<b>Q4 Actual</b>
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage as at 31 March 2022.	90% annually	100% (6 out of 6 reviews complete)
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Quarterly)	100% (6 out of 6 reports issued)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response Average time taken is also reported for information	95% (Quarterly)	100% (6 out of 6 reports issued)
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	100% (6 out of 6 TOR's issued)
<b>Quality</b>		<b>Objective: To ensure that the service is effective and adding value</b>	
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	100% (3 out of 3 recommendations accepted)
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (3 out of 5) where 1 is poor and 5 is very good Average score is also reported for information	100% (Quarterly)	100% (6 out of 6 returns) Average score 4.95
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	100% (6 returns from 6 surveys issued in 2022/23)

**ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2022/2023**

Whilst no formal advice and consultancy reviews have been undertaken for the Council during 2022/23, Internal Audit has maintained its links with the Council's key officers to discuss ongoing matters on an ad hoc / informal basis.

## ASSURANCE OPINION METHODOLOGY

### Findings

Individual findings are assessed on their impact and likelihood based on the assessment rationale in the tables below:

Impact Rating	Assessment Rationale
<b>Critical</b>	<b>A finding that could have a:</b>
	<b>Critical</b> impact on operational performance (Significant disruption to service delivery)
	<b>Critical</b> monetary or financial statement impact (In excess of 5% of service income or expenditure budget )
	<b>Critical</b> breach in laws and regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime)
	<b>Critical</b> impact on the reputation of the Council (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
	<b>Critical</b> impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)
<b>Major</b>	<b>A finding that could have a:</b>
	<b>Major</b> impact on operational performance (Disruption to service delivery)
	<b>Major</b> monetary or financial statement impact (1-5% of service income or expenditure budget )
	<b>Major</b> breach in laws, regulations or internal policies and procedures (non compliance will have major impact on operational performance, monetary or financial statement impact or reputation of the service)
	<b>Major</b> impact on the reputation of the service within the Council and/or complaints from service users
<b>Minor</b>	<b>A finding that could have a:</b>
	<b>Minor</b> impact on operational performance (Very little or no disruption to service delivery)
	<b>Minor</b> monetary or financial statement impact (less than 1% of service income or expenditure budget )
	<b>Minor</b> breach in internal policies and procedures (non compliance will have very little or no impact on operational performance, monetary or financial statement impact or reputation of the service)
Likelihood	Assessment criteria
<b>Probable</b>	Highly likely that the event will occur (>50% chance of occurring)
<b>Possible</b>	Reasonable likelihood that the event will occur (10% - 50% chance of occurring)
<b>Unlikely</b>	The event is not expected to occur (<10% chance of occurring)

## **Overall Finding Rating**

This grid is used to determine the overall finding rating.

LIKELIHOOD			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	M
	Minor	Major	Critical
	IMPACT		

## **Priority of our recommendations**

We define the priority of our recommendations arising from each overall finding as follows;

<b>High</b>	Action required, that is considered <b>imperative</b> , to improve the control environment so that objectives are not exposed to unacceptable risks through lack of or weaknesses in critical or key controls.
<b>Medium</b>	Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls.
<b>Best Practice</b>	The issue merits attention and its implementation will enhance the control environment.

## **Overall Assurance Opinion**

Based upon the ratings of findings and recommendations arising during the audit as summarised in the risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

<b>Substantial Assurance</b>	There is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk.
<b>Moderate Assurance</b>	Whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk.
<b>Limited Assurance</b>	There are weaknesses in key areas in the system of control, which expose objectives to unacceptable levels of risk.

				APPENDIX D
SUMMARY OF ASSURANCE WORK CARRIED OUT				
Audit Area				Latest Opinion
<b>Core Financial Systems</b>				2022/23
Creditors				
Debtors				
Income collection and banking				
Payroll				
Main accounting and budgetary control				
Risk Management				2022/23
General Data Protection Regulations (GDPR)				2022/23
Cemetery				2020/21
Pavilion - Income Collection and Banking				2021/22
Leisure Gardens				2020/21
Parks (note follow up review in 2019/20 identified all actions implemented)				2021/22
Activities and Events				2022/23
Shotton Hall Bar and Catering				2022/23
Capital				2022/23
Overall Opinion				
Assurance Opinion Key	Substantial	Moderate	Limited	