



Annual Internal Audit Report and Opinion

2023/24

1. Introduction and context

- 1.1 This report outlines the audit work carried out by the Internal Audit Service for the year ended 31st March 2024.
- 1.2 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. Internal audit helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, compliance and governance processes.
- 1.3 Internal audit is a statutory requirement for local authorities, in accordance with:
- Section 151 of the Local Government Act 1972 – which requires every local authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs; and
 - The Accounts and Audit Regulations 2015 – which state 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”.
- 1.4 Internal audit independence is achieved by reporting lines which allow for unrestricted access to the Chief Executive, Senior Leadership Team (which includes the Section 151 Officer), and the Chair of the Audit and Standards Committee. Internal auditors have no direct operational responsibility or authority over any of the activities audited and the Internal Audit Charter sets out how independence and objectivity is maintained and evidenced.
- 1.5 The Public Sector Internal Audit Standards require the Chief Internal Auditor to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1 and takes into account other sources of assurance, as appropriate. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.
- 1.6 As such, the Annual Report contains:
- the Internal Audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
 - a summary of the audit work from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
 - a statement on the extent of conformance with the Standards.

2. Head of Internal Audit Opinion 2023/24

2.1 Based upon the work undertaken by Internal Audit during the year, the Chief Internal Auditor's overall opinion on the Council's system of internal control is set out below:

I am satisfied that sufficient internal audit work has been undertaken to inform an opinion on the adequacy and effectiveness of governance, risk management and internal control for 2023/24. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

It is my opinion that **Moderate Assurance** can be given over the adequacy and effectiveness of the Council's control environment for 2023/24 – see definition of assurance opinions in section 4.1 of this report. This control environment comprises of the system of internal control, governance arrangements and risk management. Any limitations over this opinion are detailed and explained further below.

Financial control

Controls relating to the key financial systems which were reviewed during the year were concluded to be operating at a level of Good Assurance. Audit testing on treasury management controls provided assurance that robust arrangements are in place to apply the Treasury Management Strategy and testing confirmed compliance with the expected controls. Recovery of housing benefit overpayments remains an area requiring further work, with reviews of outstanding debts and consistent application of expected recovery action needed.

Risk management

The Council's structures and processes for identifying, assessing and managing risk have remained generally consistent during 2023/24. Strategic and directorate level risk registers have been subject to review during the year and the strategic risk register was reported to the Audit and Standards Committee in September 2023 and March 2024.

Internal control

For the audits completed by the Internal Audit service in 2023/24 and finalised at the time of reporting, 100% of the opinions given in relation to the control environment and compliance have been of at least Moderate Assurance. There have been no audits resulting in an opinion of Major organisational risk during 2023/24.

The audit plan coverage had targeted areas of known risk and was informed through consultation with senior management and the Audit and Standards Committee.

Of the agreed management actions due for implementation during 2023/24, 60% had been completed during the year.

During 2023/24, no internal audit reports have been received in relation to the Leicestershire ICT Partnership. As such, no assurance opinion can be given in relation to the ICT service as part of this audit report and opinion for 2023/24. It is, however, noted that, during the year, a number of agreed management actions from the 2022/23 audit report on cyber

security have been evidenced as completed by the partnership. Evidence has also been provided that Public Sector Network compliance was certified in December 2023, providing a source of assurance over the security of the Council's networks. It is also noted that provision has been made for two internal audits in 2024/25 to be delivered across the partnership.

There have been no incidences during 2023/24 where the internal audit team have highlighted a fundamental risk or weakness and management have sought to accept the risk, rather than agree an appropriate action.

Internal Audit has not been made aware of any further governance, risk or internal control issues which would reduce the above opinion. No systems of controls can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

- 2.2 The basis for this opinion is derived from an assessment of the individual opinions arising from assignments undertaken throughout the year from the risk-based Internal Audit plan. Assurances from other sources have also been taken into consideration, where appropriate.
- 2.3 The assessment has taken account of the relative materiality of areas highlighted for improvement and management's progress in addressing any control weaknesses.

3. Summary of findings

3.1 All final reports have agreed action plans, dates and responsible officers, where required. The audit opinions arising from the work of Internal Audit are summarised in Table 1, split by assurance area.

Table 1 – Summary of audit opinions 2023/24:

Area	Substantial	Good	Moderate	Limited	No
Financial systems	1	3	-	-	-
Corporate governance and counter fraud	-	2	2	-	-
Growth and Regeneration – risk based audit coverage	4	-	4	-	-
Housing and Communities – risk based audit coverage	-	6	4	-	-
Total	5	11	10	-	-
Summary	19%	42%	39%	-	-
Summary (2022/23) for comparison	15%	39%	42%	4%	-

3.2 The Internal Audit team’s work has been targeted upon areas of identified risk and has sought to support service areas in identifying and prioritising areas for improvement.

4. Review of audit coverage

Audit opinion on individual audits

- 4.1 The Committee is reminded that the following assurance opinions were assigned during 2023/24, in accordance with the Internal Audit Charter:

Table 2 – Assurance categories:

Level of Assurance	Design of control environment definition	Compliance definition
Substantial	There is a sound system of internal control to support delivery of the objectives.	The control environment is operating as intended with no exceptions noted which pose risk to delivery of the objectives.
Good	There is generally a sound system of internal control, with some gaps which pose a low risk to delivery of the objectives.	The control environment is generally operating as intended with some exceptions which pose a low risk to delivery of the objectives.
Moderate	There are gaps in the internal control framework which pose a medium risk to delivery of the objectives.	Controls are not consistently operating as intended, which poses a medium risk to the delivery of the objectives.
Limited	There are gaps in the internal control framework which pose a high risk to delivery of the objectives.	Key controls are not consistently operating as intended, which poses a high risk to the delivery of the objectives.
No	Internal Audit is unable to provide any assurance that a suitable internal control framework has been designed.	Internal Audit is unable to provide any assurance that controls have been effectively applied in practice.

- 4.2 All individual reports represented in this Annual Report are final reports, unless otherwise stated. As such, the findings have been agreed with management, together with the accompanying action plans.

Summary of audit work

- 4.3 Table 3 details the assurance levels resulting from all audits undertaken in 2023/24 and the date of the Committee meeting at which the outcome of the audit was presented.

4.4 All completed assignments have been delivered in accordance with the agreed audit planning records and provide assurance in relation to the areas included in the specified scope.

Table 3 – Summary of finalised audit opinions 2023/24:

Audit Area	Design of Control Design	Compliance	Org Impact	Committee Date
Financial systems – providing assurance that the Council has made arrangements for the proper administration of its financial affairs				
Financial system key controls	Substantial (Green)	Good (Green)	Low (Green)	July 2024
Budgetary control	Good (Green)	Good (Green)	Low (Green)	July 2024
Corporate governance and counter fraud				
Procurement compliance	Good (Green)	Moderate (Amber)	Low (Green)	July 2024
Council tax and business rate exemptions	Moderate (Amber)	Good (Green)	Low (Green)	July 2024
Growth and Regeneration – risk based audit coverage				
UK Shared Prosperity Fund and Rural England	Substantial (Green)	Substantial (Green)	Low (Green)	July 2024
Levelling Up Fund	Substantial (Green)	Substantial (Green)	Low (Green)	March 2024
S106 agreements	Moderate (Amber)	Moderate (Amber)	Medium (Amber)	March 2024
Environmental health	Moderate (Amber)	Moderate (Amber)	Medium (Amber)	January 2024
Housing and Communities – risk based audit coverage				
Landlord health and safety	Good (Green)	Good (Green)	Low (Green)	November 2023
Supporting vulnerable people	Good (Green)	Moderate (Amber)	Low (Green)	January 2024
Leisure contract management	Moderate (Amber)	Moderate (Amber)	Medium (Amber)	January 2024
Housing voids management	Moderate (Amber)	Good (Green)	Low (Green)	November 2023
Preparing for Social Housing Regulation change	Good (Green)	Good (Green)	Medium (Amber)	July 2024

4.5 Audit outcomes have been reported to the Audit and Standards Committee during the 2023/24 financial year.

Implementation of agreed management actions

4.6 Internal Audit follow up on progress made against all agreed actions arising from completed assignments to ensure that they have been fully and promptly implemented. Internal Audit trace follow up action on a regular basis and report updates at every Audit and Standards Committee meeting.

4.7 A total of 45 agreed actions have been implemented by officers during 2023/24, which represents 60% of the actions which were due for implementation.

4.8 Details of the implementation rate for the agreed management actions during 2023/24 are provided in Table 4, as at 31st March 2024.

Table 4 - Implementation of agreed management actions due in 2023/24:

	'High' priority	'Medium' priority	'Low' priority	Total
Agreed and implemented	3	31	11	45 (60%)
Agreed and due within last 3 months , but not implemented	2	7	4	13 (17%)
Agreed and due over 3 months ago , but not implemented	3	11	3	17 (23%)
Total	8	49	18	75 (100%)
Agreed and not yet due for implementation	1	8	4	13

4.9 A full overview of overdue actions is provided in Table 5.

Table 5 - Summary of overdue recommendations at 31st March 2024

Audit	Audit Year	High		Medium		Low	
		Over 3 months overdue	Under 3 months overdue	Over 3 months overdue	Under 3 months overdue	Over 3 months overdue	Under 3 months overdue
Housing repairs	21/22	1	-	1	-	-	-
Asset management	21/22	-	-	1	-	1	-
Business continuity	22/23	1	-	2	-	-	-
Cyber security	22/23	1	2	2	1	-	2
Licensing	22/23	-	-	1	-	1	-
Planning enforcement	22/23	-	-	1	-	1	-
Information governance	22/23	-	-	1	-	-	-
Procurement	22/23	-	-	1	-	-	-
Right to buy	22/23	-	-	1	-	-	-
Housing voids	22/23	-	-	-	2	-	2
Environmental health	22/23	-	-	-	2	-	-
Supporting vulnerable people	23/24	-	-	-	1	-	-
Preparing for Social Housing Regulation change	23/24	-	-	-	1	-	-
Totals		3	2	11	7	3	4

5. Performance

- 5.1 It is important that Internal Audit demonstrates its value to the organisation. The service provides assurance to management and Members via its programme of work and also offers constructive support and advice to assist the Council in new areas of work.
- 5.2 The Internal Audit service has issued reports on 100% of the assignments from the 2023/24 Audit Plan.
- 5.3 In order to seek feedback on the quality of the internal audit work, customer satisfaction surveys are issued following the conclusion of audit assignments. The feedback received on audits delivered during the 2023/24 year is summarised in table. Of the feedback received 100% rated the elements of the service as either 'good' or 'outstanding'.

Table 5 – Customer satisfaction survey results

Aspects of audit assignments	Outstanding	Good	Satisfactory	Poor	N/A
Design of assignment	8	4	-	-	-
Communication during assignments	9	3	-	-	-
Quality of reporting	8	4	-	-	-
Quality of recommendations	6	5	-	-	1
	31 (65%)	16 (33%)	-	-	1 (2%)

5.5 Additional comments received on the customer surveys included:

- ‘The whole process was robust, comprehensive and positive. The level of challenge was appropriate’; and
- ‘I think the outcomes have been really useful’.

Internal Audit contribution in wider areas

5.6 Key additional areas of Internal Audit contribution to the Council in 2023/24 are set out in Table 6:

Table 6 – Internal Audit contribution

Area of Activity	Benefit to the Council
Ad hoc advice and assistance.	Assistance with ad-hoc queries and advice. Raising the profile of Internal Audit with service leads to increase the effectiveness of the service.
Sharing advice and fraud alerts.	Pro-active counter fraud support and learning from other authorities.
Supporting with the development of a new Counter Fraud Strategy and policy	Supporting the Council in its Counter Fraud strategy and reinforcing a zero-tolerance culture.
Maintaining a fraud reporting mailbox to enable concerns to be raised directly with Internal Audit.	Supporting counter fraud activity.
Support for the development on new processes and systems - providing “critical friend” advice to ensure that effective controls are built in at the outset.	Supporting the Council to strengthen its control environment at the earliest opportunity.

Area of Activity	Benefit to the Council
Maintaining good working relationships with External Audit.	Maximising value of audit resources.

Professional Standards

- 5.7 The Public Sector Internal Audit Standards (PSIAS) were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) from April 2013. The standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.
- 5.8 The objectives of the PSIAS are to:
- Define the nature of internal auditing within the UK public sector;
 - Set basic principles for carrying out internal audit in the UK public sector;
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 5.9 From 1st April 2022, the Internal Audit service has been delegated to North Northamptonshire Council and a Quality and Improvement Plan is overseen by the current Chief Internal Auditor to support ongoing development, in line with the Standards. Assessment against the Standards will be embedded in the delivery of the service and ongoing development work. An external assessment must be completed at least every five years and the timing of the first external assessment will be agreed with the S151 Officer and Chair of the Audit and Standards Committee. The Institute of Internal Auditors have produced new Global Internal Audit Standards which will apply from January 2025 and this needs to be considered in setting a timing for the external assessment.
- 5.10 A self-assessment by the Chief Internal Auditor confirms that the service is operating in general conformance with the Standards. The Quality and Improvement Plan for the Internal Audit team for the year ahead includes aligning processes with the new Global Internal Audit Standards and continuing to promote use of data analytics in the audit process.
- 5.11 The Chief Internal Auditor can confirm that there has been no evidence of impairment of the independence of the Internal Audit team during 2023/24 and no auditors have reviewed systems/controls which they have been responsible for delivering. Every member of the Internal Audit team completes an annual declaration of any interests which could present a conflict of interest and confirmation of acceptance of the code of ethics.

6. Counter fraud activity

- 6.1 Internal Audit are set up to receive and handle (where appropriate) referrals regarding allegations of fraud, misconduct and irregularities via a number of channels. There is a fraud reporting mailbox available to internal and external stakeholders, in addition to the whistleblowing procedures and general service referrals.
- 6.2 All referrals made to Internal Audit are logged, assessed and allocated to the relevant party for investigation, where appropriate. Included in Table 7 is a summary of referral activity within the service during the financial year to date. Whilst investigations are progressing, it is not appropriate for further details of allegations to be shared at the risk of jeopardising formal investigation outcomes.

Table 7 – Investigation activity in 2023/24

Description	Number	Comments
Referrals received in 2023/24	10	
Breakdown of referral type:		
Single person discount	1	Referrals received via dedicated 'report fraud' email address or internal referrals.
Housing	8	
Council tax avoidance	-	
Business rates	-	
Direct debit fraud	1	Identified by Finance team as part of bank reconciliation checks
Referrals closed at time of reporting	8	
Breakdown of outcomes during 2023/24:		
Referral to Department of Work and Pensions (DWP)	2	
Single Person Discount cancelled	-	
Single Person Discount review completed	-	
Monies recovered	1	£309 direct debit fraud recovered in full
No further action – insufficient evidence to pursue further	5	-

- 6.3 The internal audit team has also supported the Council with participation in the latest National Fraud Initiative (NFI) data matching exercise. The matches generated by the exercise are being investigated, with outcomes reported to the Cabinet Office. Outcomes from the exercise in 2023/24 included 84 single person discounts being cancelled, valued at £65,384.90 of additional council tax income. This will benefit all preceptors that make up the charge i.e. Leicestershire County Council, Police and Fire Authorities and Parishes as well as this council in proportion to the share of the council tax charge.

6.4 In addition, the Council is participating in a second pilot exercise led by the Cabinet Office to explore use of new data sources to identify potential social housing fraud. The outcomes of the pilot exercises will be reported upon conclusion.

Appendix 1: Limitations

Limitations inherent to Internal Audit's work:

Internal Audit work has been performed subject to the limitations outlined below:

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our agreed annual programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence, management and the Audit and Standards Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment 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

Our assessment of controls relating to the areas audited is for the period 1st April 2023 to 31st March 2024. 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 operating environment, law, regulation or other; 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.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work 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 our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.