

KIRKLEES COUNCIL
CORPORATE SERVICES:
RISK SERVICE
INTERNAL AUDIT

ANNUAL REPORT OF INTERNAL AUDIT 2023/24

1. **Introduction**

This report provides a summary of the activities and performance of Internal Audit during the year and assesses the adequacy and effectiveness of the Council's governance, risk management and control environment arrangements during 2023/24.

2. **About Internal Audit**

2.1 The scope of Internal Audit's activity is established by the Council's Financial Procedure Rules and the Internal Audit Mission, Strategy and Charter. These rules include a right for Internal Audit to have free and unrestricted access to carry out work as is considered appropriate by the Head of Risk and Internal Audit.

2.2 Internal Audit reviews the Council's assurance framework for governance, risk management and business systems and controls. Some assurance is obtained through the work of other parts of the council- such as Health & Safety and Customer Complaints.

Internal Audit time is spent:

- (a) Assessing arrangements for financial control.
- (b) Assessing arrangements for other business and organisational controls – such as IT.
- (c) Resolving a range of finance and control related issues (the most significant of which are reported in the Quarterly Reports).
- (d) Assessing grant claims made to other agencies (principally WYCA)
- (e) On work related to contracting strategy and contractor appraisals
- (f) Contributing generally and providing advice to Council wide and Service specific matters related to governance, risk, financial and business control.
- (g) On fraud investigation, detection and prevention
And, to a limited extent,
- (h) Investigating allegations that the Council's business activities may not be operating in the ways intended.
- (i) Value for money.

Whilst Internal Audit work can provide some assurance about business processes, it is not resourced in a way to assess the judgement of other professionals.

2.3 Quarterly Reports on the activities of Internal Audit have been provided to the Corporate Governance and Audit Committee. The format of these was revised in 2023/24 with the intention of providing additional public information.

These reports provide:

- (i) An opinion about the level of assurance that can be taken from each planned audit on the arrangements in operation at the time of each audit.
- (ii) An opinion about follow-up of earlier Internal Audit work.
- (iii) Information about investigations, and other Internal Audit activity.
Implementation of the agreed recommendations should provide a satisfactory degree of control in all cases.

3. Summary of Audit Work in 2023/24

- 3.1 The Kirklees audit plan included 101 audits and 2 grant sign off pieces. 78 audits and the 2 grant sign off were completed alongside 7 unplanned reports, including 3 investigations. The completion rate of planned work was 77% (or 84% if unplanned reports are included). Most audit work concludes with an assurance-based opinion however although unplanned and investigations do not always conclude with an opinion the service will be issued with a report that gives recommendations to be followed up. 78 pieces of work in the year attracted overall audit opinions, the breakdown of which is shown in the table below.

Area	Opinion:					
	Positive Assurance %			Negative Assurance %		
	Total	Substantial	Adequate	Total	Limited	No
OVERALL	63	17	46	37	37	0
Core Financial Systems (6)	100	33	67	0	0	0
Financial System Controls (21)	33	5	28	67	67	0
Business Controls (21)	67	14	53	33	33	0
Risk (2)	0	0	0	100	100	0
Schools (28)	79	25	54	21	21	0

The above include follow-ups which did have positive outcomes generally 71% positive overall.

Historically a typical year would have involved a negative assurance rate of about 20%, The outcome in 2022/23 was 29%. The rate is 2023/24 is 37%. The overall figure in previous years was masked by a very strong outcome for schools (96%), but often poor outcome on business control arrangements and follow ups. During 2023/24 greater emphasis was put into auditing schools whose budget performance is weak, and the criteria were changed such that a school with a persistent budget deficit would no longer receive a positive assurance (even if its general administrative arrangements were strong). This results in the apparently worse position from schools.

- 3.2 Although core financial systems reviewed provided adequate assurance, (from a fairly small sample), financial systems had a rather poor outcome, with areas such as adult client finance, former tenants write offs, schools contracts, SENDACT, leaving care, all attracting limited assurance assessment; the areas included as “risk” both of which were unsatisfactory, related to temporary accommodation and memorial safety, rather than the general arrangements for risk management, into which additional resources have been input during the year. There were also inadequate areas of business controls such as emergency duty and staff training. However, it is the case that the negative assurance often applies to only a part of the operations, but there are nevertheless areas of concerns within these operations.

- 3.3 There were fewer investigations, partly because whilst issues have arisen the resourcing position has meant that matters have been left with management to investigate. Those that were investigated, related to potential poor value from a grant, payments of large arrears under a direct payment arrangement, a social worker authorising transactions on behalf of a (learning disability) client without reasonable authority, and a school in deficit holding council funds in a supplementary bank account.
- 3.4 Audit time has also been spent on more routine projects and activities such as:
- Support to governance and control arrangements generally.
 - Preparation of the Annual Governance Statement, although with only limited monitoring
 - Monitoring and updating Financial Procedure Rules (FPRs).
 - Financial appraisal and scoring of applicants for contracts and other aspects of assessing or approving the Council's contractual arrangements.
 - Support to the Information Governance Board, and implementation of GDPR /Data Protection Act
 - Support to corporate projects (such as waste management, district heating)
- 3.5 There is an increased expectation that the head of internal audit signs off grant claims for money from the West Yorkshire Combined Authority, and for some, (but not all) government grant awards. Some of these regimes are difficult to comply with.
- 3.6 Understanding arrangements for risk management is an important aspect of gaining assurance. The risk management function is linked to internal audit through management. The council has continued to substantially strengthen risk management arrangements. Financial sustainability remains the area of highest risk for the Council.
- 3.7 Although the Council used a risk-based audit plan in achieving the coverage of business and activity areas on which this opinion is based, the assurance framework delivered by Internal Audit is necessarily not comprehensive. Whilst coverage of financial (and commercial) business processes and governance is risk based, it does not assess the areas that involve professional judgement, particularly in relation to care related services and some other assessments that relate to individual needs.
- 3.8 The Corporate Governance & Audit Committee can gain wider governance assurance from some other sources, (E.g., health & safety, information governance and corporate complaints/ombudsman) although this could perhaps be more structured and extensive. The new reporting format aims to demonstrate assurance from the work that audit performs:

Assurance Map

Audit Type	Audit Opinion	
Financial Core Systems		
Financial Systems		
Other Business Controls		
Risk		
Schools		

Substantial Assurance	
Adequate Assurance	
Limited Assurance	
No Assurance	

- 3.9 From April 2022, internal audit took full responsibility for fraud investigation, and took on the management of the fraud team, who were previously part of the Welfare & Exchequer service. The team investigated areas of customer fraud- particularly Right to Buy, tenancy and misuse of disabled parking permits (blue badges). During the year, the strategy to counter fraud, bribery and corruption was amended by Cabinet, and an internal fraud risk panel was established. The risks from fraud are being more formally identified and recorded, and additional training is being implemented, initially in areas where the risk of fraud is high (e.g. Housing- right to buy). A number of positive outcomes in terms of right to buy refusals, and tenancy recoveries were achieved, alongside routine pursuit of those misusing blue badges. The fraud team has 4 employees (just over 3 fte),
- 3.10 Some work continues to be performed for Kirklees Active Leisure (KAL). Outcomes are reported to KAL's own Audit Committee. Audit work is also carried out for West Yorkshire Fire & Rescue Service (WYFRS), who make substantial use of Kirklees financial systems. WYFRS has its own Audit Committee.
- 3.11 The staffing position in the Internal Audit team during the year was marginally adequate. Some assistance was received from trainee accountants from the accountancy service (though the audit trainee also works for accountancy to provide professional development) but had fallen to nil ongoing by the year end. Another experienced member of staff left toward the year end. Some replacement staff have been recruited through internal team promotions and one additional person recruited at year end.
- 3.12 As noted in 2.1, the Financial Procedure Rules and the Audit Strategy and Charter document allow Internal Audit unrestricted access to consider areas of activity as they see fit in providing this audit opinion. At no point during the year has any Officer or Member sought to influence or restrict the scope or areas of activity of any piece of work.
- 3.13 The conclusions reached in all the work presented are those of Internal Audit.

- 3.14 Other issues arising through the year for the organisation to note, are:
- (a) Data integrity – in some areas the data and information that supports operations can be weak or poorly integrated- improvements would increase effectiveness of operations and management decision making as well as ensuring that certain grant sources can be successfully accessed.
 - (b) Certain contracts and areas lack adequate Data Protection Impact Assessments (DPIA) agreement and General Data Protection Regulations (GDPR) arrangements, and which is reflected in audit recommendations.

From an internal control perspective.

- (c) Reduction in staffing can have an impact on the operation of internal checks and controls these often do not manifest immediately- the organisation still faces some issues from previous operating changes where new operating risks were not fully mitigated.
- (d) Although the number of “follow ups” with continuing inadequate outcomes was improved somewhat this year, there remains an issue of adequate and sufficient implementation of recommendations in some service areas.

And from an internal audit operations perspective

- (e) Increased pressure on services has led to issues with engagement on occasion in the audit process.

3.15 Internal Audit operates within the Public Sector Internal Audit Standards (PSIAS), which is a derived form of the international internal auditing standards. There is an expectation under this regime that Internal Audit measures itself against the standards regularly and has an external assessment every 5 years Appendix 1 at the end of this report provides a summary of the recommendations from the external assessment during 2022/23 and shows what action has been taken to date to implement these recommendations. Appendix 1A also shows matters identified by an internal assessment in 2021/22 and progress made. The new Global Internal Audit Standards (GIAS) (prepared by the Institute of Internal Auditors, an essentially American based international organisation) take effect from early 2025. In contents these standards are not substantially different from those in place during 2023/24, but they are more substantially codified (in a way more like the UK cipfa interpretation, applied to local authorities) and more complex in terms of specific requirements. It is not yet clear if the government will publish enhanced UK public sector obligations. Because of this uncertainty, no specific additional comparison of our practice to the current standards, as of March 2024, has been prepared this year. A full comparative analysis will feature in next year’s report.

3.16 During 2023/24 the Head of Audit & Risk carried out some wider organisational duties that might be considered to conflict with the purely independent role of the Head of Internal Audit. These relate to roles in relation to Council corporate risk management processes, supervision of the insurance and complaints functions and limited contract and project advice. Any conflicts are handled by independent reporting, and the conflict is stated in any Internal Audit reports- such as the quarterly reports. An activity distribution of the Head of Internal Audit is contained in Appendix 2 to this report. This is something that may be a problem under GIAS standards.

- 3.17 The information that exists to reach an opinion on the overall control environment that applied in 2023/24 can be considered to be:
- (1) The assurance work for 2023/24- 63% of which overall was positive, although as noted in section 3.1, the average masks a wide variation, with financial systems and arrangements being weaker than core financial systems and schools
 - (2) Other assurance information provided to the Committee during the year, e.g., from the Investigator of Regulatory Powers, from the external auditor regarding their work on the 2023/24 accounts and internally re Information Governance, Health & Safety and Customer Complaints.
 - (3) The Head of Internal Audit's wider knowledge- heavily subordinate to the other aspects above- about the broad operation of the control environment of the organisation, supported by assessments that basic financial procedures such as reconciliations are being operated.
- 3.18 The organisation has an adequate system of financial control, although the audit work suggests there is scope for improvement in several areas of financial and business control arrangements to ensure that the objective continue to be met.
- 3.19 The assessment of processes for risk management and governance are more judgement based. As noted, the council has taken significant steps in the last few years to improve its risk management arrangements. As regards governance, this is around clarity of decision making, operations within frameworks of delegation, the constitution and procedure rules. No direct work to verify this has been carried out, but assurance comes by way of involvement in processes, and challenge to those processes, and to an extent, the absence of adversity issues (such as large number of errors, mistakes, fraud) also needs to be recognised in reaching these opinions.
- 3.20 On the basis of the evidence available, the organisation appears to have.
- a. Adequate arrangements for sound governance.
 - b. Adequate arrangements for risk management.
 - c. Adequate systems for financial control.

4. **Performance Measures of Internal Audit**

- 4.1 There is very little comparative benchmarking available about the costs of Internal Audit. Comparison of staffing numbers locally suggest that taking account of Council (and other) activity, the Kirklees IA team remains smaller than others, some of which have recently looked to strengthen their internal audit coverage.
- 4.2 The targets for performance, and those achieved were:

<u>Objectives</u>	<u>Performance Measures- target</u>	<u>Performance Measures - achieved</u>
Achieve planned audit work as adjusted	80% of planned audits achieved	77% from plan 84% with substitutes
Achieve each planned audit within budgeted time allowed.	80% of planned work achieved within initial time budget	69%
Achieve high level of work quality and customer satisfaction.	90% good or better responses to customer questionnaires	100% (based on a small sample)
Delivery of completed audit work	85% of draft reports issued within 10 days of completion of site work	87%

4.3 A quality assessment based on the consistent assessment criteria did find that all the work was compliant with some minor omissions noted against the Standards. These are being addressed within the Internal Audit team.

5 Effectiveness of the System of Internal Control- Internal Audit

5.1 The Accounts & Audit Regulations (England) require an Authority to conduct an annual review of the effectiveness of their system of internal control. An understanding of the arrangements of Internal Audit supports the ability to utilise the opinion of the Head of Internal Audit on the internal control environment as a key source of evidence in the Annual Governance Statement. As noted previously, the systems of assurance about internal control come from a wider source than just Internal Audit, although it is a primary source of assurance.

5.2 Financial Procedure Rule 5.6 requires the Head of Audit & Risk to review the systems of Internal Audit on an annual basis. The Public Sector Internal Audit Standards (PSIAS) make it a responsibility of the Head of Internal Audit to carry out periodic internal reviews and every 5 years have an external review of the Internal Audit function and report these to this Committee as noted. The external review was completed with a positive outcome in 2022/23.

6. Conclusions

6.1 This report has summarised the activities of Internal Audit during 2023/24. Detailed information has been provided to Corporate Governance & Audit Committee during the year.

6.2 Assurance coverage is sample based and not absolute across the entire range of organisational activity, and the limited resourcing further emphasises this caveat. There is just sufficient evidence to demonstrate that the Council's system of governance, risk management and internal control is largely effective and that the opinion of the Head of Internal Audit on the internal control environment can be relied upon as a key source of evidence in the compilation of the Annual Governance Statement, for the reasons explained in the report.

6.3 The proportion of audit work which resulted in an assessment providing at least adequate assurance is 63%. The remaining were of “limited assurance”. No area had “no assurance”.

6.4 There are no areas where, following audit recommendations and discussion, management have formally chosen to refuse to implement recommendations for action (and accordingly overtly accepted the potential consequences as a risk).

7. **Annual Governance Statement**

7.1 Information generated by Internal Audit forms a key part of the Council’s assessment of the quality of its organisational and business controls and the degree of assurance that can be placed upon their operational effectiveness. This information is used in preparing the Council’s Annual Governance Statement which accompanies the Statement of Accounts.

7.2 The positive opinion that the Council’s arrangements provide an adequate and effective control environment needs to be considered in the context of the breadth of assurance provided by Internal Audit, and the comments contained in this report. There are several areas that might appropriately be escalated to the Annual Statement of Governance, and these are covered in a separate report to be considered by the Committee in due course.

Contact Officer

M E Dearnley – Head of Risk and Internal Audit; – 01484 221000 - x 73672

Appendix 1

Recommendations from the External Assessment of Internal Audit 2022

Ref	Recommendation	Management Response / Action	Timescale	Status
	Audit Charter & Strategy			
1	It is recommended that the Charter be separated from the Strategy and that the Mission of Internal Audit be included within the document.	Agreed; we will look to redraft the version during the next 3 months, and ask the Corporate Governance & Audit Committee to consider and approve a revised document as a part of the 2023/24 audit planning process	Approval at CGAC April 2023 2024 update	Mission, Strategy & Charter now included. New GIAS standard includes Mandate also.
2	Audit Team related issues			
2a	Ensure the authority makes plans to cover the wider roles and responsibilities provided by the Head of Audit (Risk)	The Directors-Legal Governance & Monitoring and Finance, acknowledge this and are considering arrangements re succession planning	2024 update	No change. New directors will need to discuss with new chief executive during 2024/25
2b	Ensure the team maintain sufficient capacity to discharge its responsibilities and add value to the organisation. It also needs to be able to evolve for the future delivery of Internal Audit and the skill sets this will require.	Agreed; this depends on maintaining a capacity of competent, and appropriately skilled team members, through internal promotion and external recruitment as opportunities arise.	Ongoing/ from point of any future approved recruitment.	Need to ensure appropriate capacity- see report
2c	Consider the strategy for delivering assurance over Kirklees' schools and if there may be different ways of gaining this e.g., through thematic based audits, promoting lessons learned from audits undertaken etc.	As a principle accepted, although this depends on both the audit resourcing capacity, and the expectations from those within the wider organisation. Will subject to review discussion.	2024 update	Agreed to reorientate school work to look at those with (Budget) issues. Activity still seen as important by Director of Learning
2d	The ongoing development of the newer members of the team should be maintained	Agreed	March 2023 staff appraisals, and ongoing	Ongoing 2024 update
2e	Review the job titles of Audit Staff below Audit Manager level to ensure their role in the authority and the nature of the work they deliver is understood.	Agreed. Whilst there are advantages of maintaining alignment with other finance posts for career and grading reasons, the titles will be made more distinct, and the role profiles amended to emphasise the key expectations go beyond those of finance for many post holders. Will do this for new recruits and if possible, for existing post holders	At time of next recruitment.	Job titles being made rather more specific, but depends on HR approval
3	The Counter Fraud Team			
	Continue further developing the Counter Fraud team to align with	Agreed; changes depend on developing skills and capacity		Incorporated in 2023/24 strategic

Ref	Recommendation	Management Response / Action	Timescale	Status
	the revised counter fraud strategy			plan
4	Code of Ethics			
	All audit staff could complete a separate ethics declaration covering all aspects highlighted in the Standards.	Agreed. Can ask staff to update these declarations annually too	April 2023, and annually thereafter	Done in April 2023
5	Corporate Governance and Audit Committee			
5a	Progress the appointment of the Independent Member - this will provide further support to the operation of the committee, in particular in maintaining its apolitical conduct. The independent member will also likely enhance the skills, knowledge and experience collectively held within the committee.	This is to be progressed during January 2023. If a recruitment takes place, it is hoped the post holder can take up duties at the end of this financial year	March 2023 2024 update	Independent Member appointed March 2023 Successful first year. Issues about second member and succession under discussion
5b	Review the level of information reported in the private session of the committee around the work of the internal audit team to strike an accepted balance between openness and transparency and need to maintain confidentiality and not expose the council to abuse of systems and controls through putting inappropriate information into the public domain	The CGAC will be asked to consider this alongside some amended reporting formats which might help with achieving a slightly amended balance between openness and the need for confidentiality.	2024 update	Revised format implemented during 23/24
5c	The Annual Report of the Head of Internal Audit for 2022/23 should provide separate opinions over risk, governance and control arrangements in line with CIPFA guidance	Agreed; this will be changed in the Head of Internal Audit annual report for the year 2022/23 (& thereafter)	2024 update	The annual report for 2022/23 and 2023/24 separates these opinions
6	Action tracking and reporting			
	The arrangements for checking the implementation of agreed management actions arising from audit findings should be reviewed to ensure best value is obtained from audit work carried out and that management are held to account when significant actions are not implemented within timescales they provided.	Agreed. We will explore the opportunities for strengthening follow up arrangements for all audit work and ensure that this is systematically reported to the Corporate Governance & Audit Committee. (Although it is important that this process does not detract too much from delivery of the initial audit work)	2024 update	Additional information about recommendations now in QRs.

**Appendix 1A
Annual Review of Internal Audit- Internal assessment – 2022: 2024 update**

	Recommendations	Actions	Update
1	Some elements of the Strategy and Charter do not align with recommended practice	Amend Charter/Strategy	Amended 2022, and further amended 2023 and further amended (closer to GIAS) 2024
2	Explore further options to obtain customer feedback (1311 assessment) (from 2021)	Consider other options	This remains an issue as attempts to get engagement is limited, although some director engagement and directorate SLTs visited
3	Potential concern that skill mix does not match workload and aspirations (1200 Proficiency) (from 2021)	Assess skills -especially of new staff-and options and report back	Remains an issue (see text)
4	Ensure full involvement of senior management in processes (20101 Planning/ 2060 Reporting)	Share plan and charter with senior management	Additional activity to ensure plans and tis report shared with senior management, including from 2024/25 all QRs
5	Progress work on wider “other assurance” sources (2050 Coordination)	Determine if additional work still required on “other assurance”	March 2024’; Organisation needs to decide about need for wider assurance

Appendix 2 Time spent analysis by Head of Audit & Risk

Time spent analysis by Head of Audit & Risk		2023/24% all year	2022/23% all year	2021/22 % all year	2020/21 % all year
Specific IA projects, investigations		#	#	9	8
General Advice	Childrens	2	5	4	1
	Adults	6	3	6	5
	Environment & Regeneration	16	34	28	27
	Corporate	16	10	9	10
Fraud		4	6	-	-
Procurement & FPRs & CPRs		3	3	5	13
Risk Management		8	8	6	7
Trust Funds		17	12	14	10
CGAC advice		10 \$	8 \$	6	5
Management & Supervision		18	11	13	14

(#) included in service analysis below

(\$) includes support to the LGA Y&H Regional chairs forum.