

Name of meeting: Corporate Governance & Audit Committee

Date: 21st April 2023

Title of report: Annual Report of Internal Audit 2022/23 & Issues for 2023/24

Purpose of report; To provide information about

- **Internal Audit activity and the effectiveness of the system of risk management, governance and internal control, and conclusions on the control environment and assurance provided in 2022/23**
- **Internal Audit activity planned for 2023/24**

| | |
|---|-----------------------|
| Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards? | Not applicable |
| Key Decision - Is it in the Council's Forward Plan (key decisions and private reports)? | Not applicable |
| The Decision - Is it eligible for "call in" by Scrutiny? | Not applicable |
| Date signed off by Director & name. Is it also signed off by the Service Director for Finance? | Not applicable |
| Is it also signed off by the Service Director for Legal, Governance & Commissioning? | Not applicable |
| Cabinet member portfolio | Not applicable |

Electoral wards affected: All.

Ward councillors consulted: Not applicable.

Have you considered GDPR; Yes?

Public

1. Summary

1.1 These reports provide information about

- (a) Internal Audit activity in the year to 31st March 2023 and provides an "opinion" on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control, and advises as regards compliance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and Code of Ethics.
- (b) Priorities and issues for the year 2023/24, and recognising current good practice, provides a recommended Audit Plan for the first part of 2023/24, and a provisional plan for the second half of 2023/24 and a recommended 2023/24 audit mission, charter and strategy.

2. Information required to take a decision

- 2.1 The year 2022/23 was more normal than the previous two, with 83 formal tasks completed, although there was also a substantial amount of other activity to support the ongoing business activities of the council. From the beginning of the year the internal audit function also took on customer counter fraud activity, previously provided by the Exchequer service. The year also involved a much more structured approach to risk management.
- 2.2 The two reports provide information about.
- (a) The year just completed (2022/23) and assurance obtained, through routine work and otherwise, and this is necessary to ascertain judgements on the quality of the organisations governance, risk management and control arrangements. As the report notes, overall assurance from audit work is at 71%, but this is masked by a high performance by schools adequate performance on financial systems and controls, but poor assurance outcomes on business controls and from follow up audits.
- (b) A Plan for 2023/24. It is suggested that this year this be split into a Spring Summer (Q1, Q2) plan, and a provisional autumn/winter plan (Q3, Q4) which can be adjusted based on council need and the internal and external environment creating changed assurance priorities. The attached report sets this out, and other issues relating to obtaining assurance in 2023/24 in more detail. A revised mission, strategy & charter is also contained as Annex D to the second report.
- 2.3 This Committee also needs to review, and indicate that it is content as regards, the effectiveness of the system of internal control. The attached report (a) contains material intended to assist the Committee in reaching a decision.

3. Implications for the Council

- 3.1 **Working with People** – None directly
- 3.2 **Working with Partners** – None directly
- 3.3 **Place Based Working** – None directly.
- 3.4 **Improving outcomes for children**– None directly
- 3.5 **Climate change and air quality**- None directly
- 3.6 **Other (e.g., Legal/Financial or Human Resources)**- Although each of the sub-categorisations above suggest no direct implications, the work of Internal Audit covers all aspects of the Council's operations, including elements of the above, either specifically, indirectly or on a commissioned basis. The main issues relate to those areas highlighted above - where there are risks associated with basic processing arrangements and delivering sound governance and control.

4. Consultees and their opinions

- 4.1 Not applicable, although senior managers have been consulted on the draft plan.

5. Next steps & Timelines

- 5.1 This report informs the preparation of the Annual Governance Statement for 2022/23.
- 5.2 Audit activity in 2023/24 will concentrate on major areas of risk and control, assurance. Resources will be available to investigate fraud, and significant areas of concern on a reactive basis.

6. Officer recommendations and reasons

- 6.1 The Committee is asked to confirm it is content with:
 - (a) The effectiveness of its Internal Audit function, and to note its conformance with Public Sector Internal Audit Standards and Code of Ethics
 - (b) In respect of 2022/23
 - (i) The effectiveness of the Council's overall system of internal control
 - (ii) The effectiveness of the broader control environment, risk management and governance arrangements of the Council (subject to the observations contained within the report).
- 6.2 The Committee is asked to note the findings from internal audit activity in 2022/23 and determine if it wishes to seek further confirmations or make further determinations on these matters.
- 6.3 In respect of 2023/24 the Committee is asked to.
 - (a) approves the
 - (i) Internal Audit Mission, Strategy and Charter
 - (ii) 2023/24 Audit strategy report,
 - (iii) The proposed Audit Plans for 2023/24; (April 2023 to September 2023 Q1, Q2) and draft plan for 2023/24 (October 2023-March 2024 Q3, Q4)
 - [b] give authority for the Head of Internal Audit to vary the proposed audit plan as is considered necessary, subject to reporting back as a part of the quarterly review process.

7. Cabinet portfolio holder recommendation

Not applicable.

8. Contact officer

Martin Dearnley, Head of Risk 01484 221000 (73672)

9. Background Papers and History of Decisions

The Annual Report of Internal Audit 2022/23

The Audit Strategy Report for 2023/24

The audit mission, charter and strategy (2023/24 version)

10. Service Director responsible

Not applicable.

KIRKLEES COUNCIL
CORPORATE SERVICES: RISK SERVICE
INTERNAL AUDIT

ANNUAL REPORT OF INTERNAL AUDIT 2022/23

1. **Introduction**

- 1.1 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 2022/23.

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 Internal Audit (the Head of Risk).
- 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 agencies - such as the Council's Health and Safety team. (The Corporate Governance & Audit Committee have considered this wider assurance).

Internal Audit time is spent:

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

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. 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 2022/23

- 3.1 The Kirklees audit plan included 85 pieces of work, of which 57 were completed alongside 10 unplanned pieces, including investigations. The completion rate of planned work was two thirds, or three quarters if unplanned work which could attract an opinion is included. Most audit work concludes with an assurance-based opinion, sixty-three pieces of work in the year attracted audit opinions, as shown in the table below.

| Area | Opinion: | | | | | |
|-------------------------------|--------------------|--------------------|-----------------|--------------------|----------------|-----------|
| | Positive Assurance | | | Negative Assurance | | |
| | Total | <i>Substantial</i> | <i>Adequate</i> | Total | <i>Limited</i> | <i>No</i> |
| OVERALL | 71% | 35% | 36% | 29% | 29% | 0% |
| Financial Systems & Processes | 67% | 21% | 46% | 33% | 33% | 0% |
| Business Controls | 42% | 0% | 42% | 58% | 58% | 0% |
| Schools | 96% | 61% | 35% | 4% | 4% | 0% |
| Follow Up | 33% | 17% | 17% | 66% | 49% | 17% |

Against a typical year expectation that about 20% of arrangements would not offer acceptable assurance, this year's outcome at 29% is a somewhat high. However, the overall figure is masked by a very strong outcome for schools, and a poor outcome on business control arrangements and follow ups. [The low levels of assurance received from Follow Up audits has been recognised as an issue by senior management and activity is underway to increase focus in this area, utilising the quarterly risk management reporting process, to drive regular review of progress against recommendations.]

- 3.2 The poor outcome on business controls may reflect that the areas covered included a number of ambitious areas, such as modern slavery, attendance management and school exclusions. In some areas greater emphasis on fraud prevention may also have impacted on outcomes. There were a very large proportion of follow up audits that continued to find a lack of adequacy, although, in most cases, there had been progress in some areas.
- 3.3 There were several investigations reported during the year, related to issues related to direct payments, and allegations about a contractor.
- 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 due to the late adoption of the plan this year there was no monitoring of progress.
 - Monitoring and updating Contract Procedure Rules (CPRs) and 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)
- Internal audit also completed a review of the councils compliance with the CIPFA Financial Management Code.

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. Although linked to internal audit only through management, the council has taken steps to substantially strengthen risk management arrangements, and this area has a positive opinion, and is of importance in reaching a conclusion about the control environment. In summary the areas defined as those of corporate risk areas are.

| | |
|----------------------------------|-------------------|
| Financial Sustainability | Higher Risk Areas |
| Statutory Obligations | |
| Resilient Operational Processes | |
| Workforce Development | |
| Community Wellbeing | |
| Safeguarding | Medium Risk Areas |
| Climate Change | |
| Physical Assets & infrastructure | |
| Third Party Relationships | |
| Effective Governance | |

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, (a matter that will be separately reported).

| Areas of assurance required | Sources of assurance |
|------------------------------------|--|
| Financial sustainability | CFO & finance team reports re financial position to Cabinet and Council, annual budget council. External audit contribution |
| Financial control | External and internal audit activity, role of CFO and finance team -e.g., re budget monitoring, treasury management reporting |
| Governance | Director of Legal, Governance & Commissioning, and councils legal/information governance teams. Financial oversight by Finance team. Careful oversight of decision making by Council, Cabinet, relevant committee and officers. Council procedure Rules, FPRs, CPRs |
| Business Control | Internal audit, Information technology, health & safety, emergency planning |
| Complaints | Service complaints mechanism, oversight by corporate complaints team, commentary from Ombudsman |
| Human resources | Peoples Services exercise control of staffing arrangements and management, recruitment, grading, payroll etc |
| Other regulatory | Ofsted, CQC, Ombudsman, Social Housing Regulator, HSE |

- 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. 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. One case of abuse of the Covid grant schemes resulted in criminal conviction of the perpetrators, and recovery of grants, and costs. The fraud team has 4 employees (just over 3 fte), although one team member left toward the end of the year.
- 3.10 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 was adequate, although at the year end one internal audit manager left, and another member of staff indicated an intention to leave during summer 2023. The intention is to seek replacements for these posts to continue emphasis on organisational control and assurance.
- 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 Internal Audit operates within the Public Sector Internal Audit Standards (PSIAS), which is a derived form of the international internal auditing standards. The function was subject to an external assessment (on a peer review basis by the Head of Audit at City of Doncaster Council) during the year. The assessment concluded that the activity operated at the highest standard – “generally conforms” to the PSIAS and Code of Ethics. Shared Appendix 1 at the end of this report provides a summary of the recommendations 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.
- 3.15 During 2022/23 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 the 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 Annex 2 to this report.
- 3.16 The information that exists to reach an opinion on the overall control environment that applied in 2022/23 can be considered to be:
- (1) The assurance work for 2022/23- 71% of which overall was positive, although as noted in section 3.1, (and annex 1) the average masks a wide variation, with financial systems and arrangements being two thirds positive, whilst those for more general business controls there are more than half inadequate. The assessment of compliance with the CIPFA FM code also found that procedures are in accordance with expectations (with some areas for improvement)
 - (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 2022/23 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.
- 3.17 The organisation has a sound system of financial control, although the audit work suggests there is scope for improvement in other areas of business control to ensure that the objective continue to be met. To an extent, the absence of adversity issues (such as large number of errors, mistakes, fraud) also needs to be recognised in reaching an opinion.
- 3.18 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.

There would appear to be a need to address a number of areas for general business controls.

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 | 64% from plan 76% 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 | Not recorded |
| Delivery of completed audit work | 85% of draft reports issued within 10 days of completion of site work | 90% |

- 4.3 A quality assessment based on the consistent assessment criteria did find that all the work was compliant with the Standards.

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 this year.

6. Conclusions

- 6.1 This report has summarised the activities of Internal Audit during 2022/23. Detailed information has been provided to Corporate Governance & Audit Committee during the year.
- 6.2 There is just sufficient evidence to demonstrate that the Council's system of governance, risk management and internal control is 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. There is a further caveat, that the assurance coverage is sample based and not absolute across the entire range of organisational activity.
- 6.3 The proportion of audit work which resulted in an assessment providing at least adequate assurance is 71%. The remaining were of "limited assurance", save for one (2%) "no assurance" this year.
- 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 Internal Audit; (Head of Risk) – 01484 221000 - x 73672

Annex 1

INTERNAL AUDIT ASSURANCE ASSESSMENTS DETAILED PERFORMANCE STATISTICS FOR 5 YEARS

| | 2022/23 | 2021/22 | 2020/21 | 2019/20 | 2018/19 |
|---|------------|------------|------------|------------|------------|
| Number of days spent on planned and unplanned audit work | 1,260 | 957 | 1,195 | 1,376 | 894 |
| Number of financial processes and systems examined. | 19 | 11 | 14 | 32 | 11 |
| Percentage offering limited assurance. | 37% | 36% | 36% | 16% | 27% |
| Number of school audits undertaken | 28 | 23 | 12 | 29 | 34 |
| Percentage offering limited assurance | 4% | 0% | 0% | 10% | 6% |
| Follow up audit work carried out. | 6 | 5 | 12 | 13 | 9 |
| Percentage offering limited assurance | 66% | 28% | 50% | 31% | 55% |
| Number of business control audits undertaken | 10 | 6 | | 15 | 14 |
| Percentage offering limited assurance | 60% | 17% | | 27% | 36% |
| Number of investigations into irregularity | 3 | 6 | 0 | 7 | 2 |
| Number of managements, governance or value for money studies | 1 | 0 | 5 | 3 | 0 |
| Number of grant audits, consultancy, projects | 16 | 15 | 17# | 13 | 19 |
| Completed formal tasks. | 83 | 68 | 43 | 112 | 89 |
| Overall percentage of reported audits providing only limited assurance/ *unsatisfactory (Corporate target 20%) | 29% | 15% | 29% | 18% | 22% |

Annex 2

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

(*) all project work in 22/23 related to Regeneration function.

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

KIRKLEES COUNCIL
CORPORATE SERVICES: RISK SERVICE
INTERNAL AUDIT

INTERNAL AUDIT STRATEGY & PLAN
FOR 2023/24

1. **Introduction**

- 1.1 This report provides information about how Internal Audit will assesses the adequacy and effectiveness of the Council's governance, risk management and control environment arrangements during 2023/24 and discusses other issues that relate to that year. The report recommends an Audit Plan for the first half of 2023/24 and a provisional plan for the second half of the year.

2. **Internal Audit Plan for 2023/24**

- 2.1 The responsibility for an effective audit function is a shared responsibility between the organisation, and its Head of Internal Audit, with the organisation recognising the importance of adequate and effective arrangements for governance, risk management and internal control, and the Head of Internal Audit ensuring an independent function looking to achieve best practice, that effectively engages with the organisation and the Corporate Governance & Audit Committee.
- 2.2 A risk based draft plan is presented for consideration by this Committee which has been subject to consultation with Strategic Directors and their management teams. There are no longer Service specific audit plans, although operational staff, Heads of Service and Directors are still expected to participate in audit planning, delivery, and response to findings. The need for an audit plan to be subject to adjustment to reflect changing internal and external (reflecting national and international) events means that it is now considered good practice, to approve a plan for the first half of the year, and a provisional plan for the second half.
- 2.3 The Plan for Spring and Summer 2023/24 (Q1, Q2) and the provisional plan for Autumn and Winter 2023/24 is prepared around objectives to:
- a) Look at high value or high-risk activity and
 - b) Review (at least in part) core systems and basic financial operations,
 - c) Ensure basic compliance with processes.
 - d) Continue to emphasize business control area assurances.
 - e) Follow up those with inadequate assurance outcomes.
 - f) Investigate fraud and inappropriate behaviour and mitigate opportunity where possible.
 - g) understand and improve value for money. and
 - h) continue to enhance risk management.
 - i) understand the wider assurance environment to ascertain if it achieves a full set of entity control and assurance.
- 2.4 The external PSIAS assessment suggested that the council should consider if the volume of activity related to schools should be maintained. This is a core part of the internal control assurance process relating to community schools, so it is recommended that in quarter 1 and 2 this area of assessment be retained, although it may be an opportunity for resource realignment later in the year.

- 2.5 The suggested plan is attached as Annex A, summarised as

| Plan Period | Planned new work | Schools | Follow up | Total |
|--------------------------------------|------------------|---------|-----------|-------|
| Q1 Q2 spring summer | 26 | 12 | 10 | 48 |
| Q3 Q4 autumn winter (Provisional) | 29 | 16 | 11 | 56 |
| Totals | 55 | 28 | 21 | 104 |

- 2.6 The large volume of follow up work, because of the poor outcomes means that the plan is ambitious, although there should be scope for greater operational effectiveness this year, although a threat is staff turnover, or other limits on resources.
- 2.7 The schedule of key systems, organisational and business controls is attached as Annex B. Notwithstanding the comments that the plan should be more flexible, this remains the core menu from which many audit tasks- to understand core assurance- need to be chosen from.

3. Counter Fraud, Bribery and Corruption activity in 2023/24

- 3.1 Counter fraud, bribery and corruption activity will continue to address areas of customer fraud, (for example right to buy and tenancy) and other incidents or suspicions of fraud, bribery or corruptions amongst the councils own workforce, and from suppliers and related organisations.
- 3.2 In accordance with the newly adopted Strategy, activity will look to be more proactive in working with service managers to ensure staff awareness and ensuring that operating arrangements are designed to mitigate fraud, bribery and corruption risk.
- 3.3 If the need, or opportunity arises there may be proactive work directed at areas perceived to have a high risk of fraud, bribery or corruption.

4. Risk Management activity in 2023/24

- 4.1 Risk management has been substantially enhanced, and this positive progress will continue, by ensuring that risk management is both “fit for purpose” and sufficiently sophisticated to provide a balanced picture of risk exposure to the organisation.
- 4.2 Its success though will depend on continued engagement, particularly by senior and middle management.

5. Internal Audit resourcing, reporting, performance and targets for 2023/24

- 5.1 Every activity will still be in view for Internal Audit, albeit this will be over a timescale of longer than the historic 5-year cycle. Under resourcing for some years, and the very serious impairment to normal assurance for 2 years has impacted on the ability to assess overall assurance.
- 5.2 The plan is based on a reasonable level of productivity during the year, and no further diversion of resources, or significant impediments to delivery of work. If these cannot be fulfilled, this will impact again on the overall volume of work that can be achieved.
- 5.3 There is a need for flexibility, and to provide the Head of Internal Audit with authority to flex the plan to meet organisational needs in relation to assurance

that processes being operated are sound and free from inappropriate actions or influences.

- 5.4 The performance targets for Internal Audit are at Annex C.
- 5.5 Reflecting comments in the external assessment, new ways of reporting internal audits work will be explored from quarter 1, 2023/24.
- 5.6 Audit work will be performed in accordance with the Audit Mission, Strategy and Charter, the 2023 version is shown at Annex D. This has been subject to some revisions as recommended by the external review.
- 5.7 However, the Institute of Internal Auditors (IIA) have indicated an intention to publish new standards by Summer 2023, which it is anticipated will be more rigorous. It is therefore proposed to make only minor changes to the current document (to reflect the recommendations), and to look to fully revise the documents to align with the new standards. These IAA obligations (and the likely government mandated adjustments for the UK public sector, likely to be led by CIPFA) may also require other changes to internal audit practice, which will be reported separately in due course.
- 5.8 The report notes that two audit, and one fraud team employee left the service last year, with at least one other likely to do so this year. The age profile of the team is such that almost half the team would be able to choose early retirement in the current year. The service is small and specialist, and recruitment can be difficult at times. The organisation has approved recruitment of staff to replace the audit manager and provide supervision capacity for the fraud team (which was not transferred from Exchequer).
- 5.9 Notwithstanding the organisations need to reduce overall expenditure, the councils continuing ambitions, and the limited coverage of assurance work in recent years and the large proportion of audits that reach a conclusion that arrangement provide only limited assurance, particularly in relation to business controls (which then also require resources to follow these up), means that it is most unlikely to be appropriate to look to make further savings in the activity, which really needs to continue to enhance the numbers of and skills of junior employees (building on the reinstated trainee accountant programme, that reflects staffing challenges in both the risk and wider accounting function)

6. Conclusions

- 6.1 This report has set out a suggested approach for the year 2023/24.
- 6.2 This will be a challenging year for the council, and through work on assurance, activity to counter fraud, bribery and corruption risks and effective risk management the wider internal audit function can assist the organisation.

Recommendations are included in the cover report.

Contact Officer

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Annex A

DRAFT INTERNAL AUDIT PLAN 2023/24

An effective audit plan needs to reflect the organisation's needs, which are depended on events and issues both internally and out with the authority. As these can develop at short notice, it is no longer advised to have a fixed audit plan based on historical risk scores and an "Audit universe". Instead, a plan needs to reflect need, whilst retaining a balance of work between that which is strategic and that which addresses detail, as part of the overall assurance must reflect that the organisations basic systems and arrangements remain sound and effective. Given the continuing constraint on resources, the audits listed are the proposed first half of the year, with a provisional list for the second half of the year.

Follow up audits relate to audits in 2022/23 which produced a *Limited Assurance* opinion. The draft plan has been prepared in accordance with the Public Sector Internal Audit Standards.

| DRAFT PLAN 2023/24 | April to September 2023 |
|---|--|
| <u>Children</u> 2 x High Schools 10 x Primary Schools Residential Care Homes Fostering Allowances SEND IF follow up. Troubled Families Claims <u>Corporate</u> Cyber Security Third Sector Support SAP Category Management NHS Toolkit Legal Disbursements Income Management NDR Billing Revenues Write-offs Blue Badge Assessment CT & NDR Data Validation Follow up. Health & Safety Healthy Child Follow up. <u>All</u> Service Complaints | <u>Environment</u> Taxi Licensing Follow up. School Transport Follow up. Memorial Safety Cliffe House School Catering Procurement F/up Meadow Green Catering Income F/ up Pool Cars Follow up. WYCA Grants <u>Growth & Regen</u> Energy Supply Contracts Rent Setting HRA Responsive Repairs HRA Mould / Damp HRA write-offs <u>Adults</u> EDS Follow up. Care Phones Domiciliary Care Payments DOLs Registration Service Modern Slavery Follow up. Domestic Abuse Part 2 |

| PROVISIONAL DRAFT PLAN 2023/24 | October 2023to March 2024 |
|---|--|
| <u>Children</u> 16 x Primary Schools Regional Adoption Agency Follow up. Leaving Care School Exclusion Follow up. School Admissions Troubled Families Claims <u>Corporate</u> Network Access Performance Management Members Code of Conduct Data Security & Sharing Accounts Receivable Recovery CT Refunds Bank Reconciliation VAT NDR Reliefs & Exemptions Follow up. Payroll Mandatory Training Follow up. Attendance Management Follow up. Lone Working Follow up. <u>All</u> Project Management | <u>Environment</u> Bereavement Income Parks Parking & Traffic Enforcement Highways Plant & Machinery Highways Materials <u>Growth & Regen</u> Temporary Accom 2nd Follow up. Asbestos Management HRA Regulatory Compliance BS Plant & Equipment Follow up. BS Van Stock Follow up. HRA Rent Income HRA Current Arrears <u>Adults</u> Client Finances Follow up. KICES Gateway to Care Live Well Kirklees CQC Assurance Shared Lives Community Languages Follow up. Prevent Personalised Care |

Annex B

KEY CORPORATE SYSTEMS 2023/24

Financial Systems & Controls

Payroll (SAP)
Debtors (SAP)
Procurement / Creditors (SAP)
Council Tax
Business Rates
Council Tax Reduction Scheme (residual Benefits)
Housing Rents
Treasury Management
Payments for Social Care
School Payments
Internal Recharging

Key Organisation & Business Controls

Code of Corporate Governance
Contract Procedure Rules
Financial Procedure Rules
Contract Management
HR Operations
Risk Management
IT Controls
Performance Management Systems
Partnership Governance
Emergency & Business Continuity Planning
Information Security
Health & Safety
Fraud, Bribery & Corruption Risk
Corporate Complaints
Whistleblowing

Annex C

INTERNAL AUDIT PERFORMANCE TARGETS 2023/24

| <u>Objectives</u> | <u>Performance Measures</u> |
|---|---|
| | |
| Achieve planned audit work as adjusted | 80% of planned audits achieved |
| Achieve each planned audit within budgeted time allowed. | 80% of planned work achieved within initial time budget |
| Achieve high level of work quality and customer satisfaction. | 90% good or better responses to customer questionnaires |
| Delivery of completed audit work | 85% of draft reports issued within 10 days of completion of site work |

Annex D

Internal Audit Mission, Strategy & Charter 2023-24

Appears after the shared appendices.

Shared Appendix A

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 | Mission, Strategy & Charter now included. |
| 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 | At the appropriate times (which cannot currently be defined) | No change |
| 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. | Discussion by April 2023 | Annual report advises retention of capacity in Summer 23, but reviewed in second half of year |
| 2d | The ongoing development of the newer members of the team should be maintained | Agreed | March 2023 staff appraisals, and ongoing | ongoing |
| 2e | Review the job titles of Audit Staff below Audit Manager level to ensure their role in | Agreed. Whilst there are advantages of maintaining alignment with other | At time of next recruitment. | Job titles being made rather more |

| Ref | Recommendation | Management Response / Action | Timescale | Status |
|-----|---|---|---|--|
| | the authority and the nature of the work they deliver is understood. | 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 | | specific, but depends on HR approval |
| 3 | The Counter Fraud Team | | | |
| | Continue further developing the Counter Fraud team to align with the revised counter fraud strategy | Agreed; changes depend on developing skills and capacity | From time of approval of new Strategy, and then ongoing | Incorporated in 2023/24 strategic 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 | Independent Member appointed March 2023 |
| 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. | April 2023 And July 2023 | Revised format proposed to start with Q1 23/24 |

| Ref | Recommendation | Management Response / Action | Timescale | Status |
|-----|---|---|------------|--|
| 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) | April 2023 | The annual report for 2022/23 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) | July 2023 | Progress in seeking engagement from directorates in implementing recommendations |

Shared Appendix A1

Annual Review of Internal Audit- Internal assessment – 2022

Note only item 1 was raised as an issue during the external assessment in 2023.

| | 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 (but see text) |
| 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 | Done in 2023 (albeit timings do not allow full engagement) |
| 5 | Progress work on wider “other assurance” sources (2050 Coordination) | Determine if additional work still required on “other assurance” | Summer 2022. This work still requires further development. See text. |

