

**KIRKLEES COUNCIL
CORPORATE SERVICES:
RISK SERVICE
INTERNAL AUDIT**

**Annual report of the Head of Risk and Internal Audit about
Internal Audit activity during the year ended 31st March 2025**

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 the financial year 2024/25. This is the last year of reporting under the version of the Public Sector internal Audit Standards that applied until 31 March 2025.

2. **About Internal Audit**

2.1 The scope of Internal Audit's activity is established by the Council's Financial Procedure Rules and the 2024/25 Internal Audit Mission, Strategy and Charter. These rules include a right for Internal Audit to have free and unrestricted access to conduct 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. Assurance can also be 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 data management.
- (c) Resolving a range of finance, control, governance and risk related issues
- (d) Assessing grant claims made to other agencies (principally WYCA)
- (e) Appraisal of contractors and contributing to more complex contract strategies
- (f) On fraud investigation, detection and prevention
And, to a more limited extent,
- (g) Investigating allegations that the Council's business activities may not be operating in the ways intended.
- (h) Value for money.

Whilst Internal Audit work can provide 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 last year to provide more 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 2024/25

3.1 The Kirklees audit plan included 44 general assurance audits. The completion rate of this planned work was 66% (although most of the none completed work is in progress and will be reported in 2025/26)

Area	Opinion:					
	Positive Assurance %			Negative Assurance %		
	Total	<i>Substantial</i>	<i>Adequate</i>	Total	<i>Limited</i>	<i>No</i>
OVERALL (50)	70	32	38	30	30	0
Financial Controls (16)	62	6	56	38	38	0
Business Controls (12)	84	42	42	16	16	0
Follow Up (3)	3	33	33	34	34	0
Schools (19)	68	47	21	32	32	0

Historically a typical year would have involved a negative assurance rate of about 20%, This has been gradually drifting upwards 2022/23 was 29%, and 2023/24 is 37%. This year is a slight improvement at 30%.

The overall figure in previous years was masked by a strong outcome for schools (96%), but often poor outcome on business control arrangements and follow ups. During 2024/25 we continued to place greater emphasis on reviewing 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. Follow up work was conducted in three areas, including two reviews of progress re SENDACT

3.2 Although core financial systems reviewed provided adequate assurance, (from a small sample), there were weaknesses in the operational arrangements for several financial systems – such as district heating, debt collection, direct payments, and in other business systems areas of concerns included aspects of tenancy allocation, and domestic abuse contracts.

3.3 Common themes from audit (and other work) that reflect a degree of risk to the council, include the need to improve contract and project management, information management and data protection, and whilst it now comprises only a very small element of the councils income, looking after cash received in an appropriate way.

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 strengthen risk management arrangements.
- 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 assessments that relate to individual needs.
- 3.8 The Corporate Governance & Audit Committee can also gain wider governance assurance from 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:
- 3.9 Internal Audit looks after fraud investigation, The team investigated areas of customer fraud, and positive outcomes in terms of right to buy refusals, and tenancy recoveries were achieved, alongside routine pursuit of those misusing blue badges. Whilst some fraud risk assessments have been completed, greater effort is required in other areas, alongside a recognition of the obligations contained within the Economic Crime and Corporate Transparency Act 2023, that takes effect later this 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 undertaken 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 continues to be difficult. Although one staff member joined the team, another left. IA staffing at the year end was only just over five full time equivalent staff (after taking account of work performed for other clients), and whilst attempts are being made to fill vacancies, there is limited interest from suitable candidates.
- 3.12 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. The conclusions reached in all the work presented are those of Internal Audit.

- 3.13 During 2024/25 the Head of Risk & Internal Audit 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 managed 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. Whilst the GIAS expects “purity” of independence from operational duties, the GIAS does accept that a degree on non-conformance with the pure standards may be necessary.
- 3.14 The information that exists to reach an opinion on the overall control environment that applied in 2024/25 can be considered to be:
- (a) The assurance work for 2024/25- 71% of overall was positive, although as noted in section 3.1, the average masks a wide variation.
 - (b) 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 and 2024/25 accounts and internally re Information Governance, Health & Safety and Customer Complaints.
 - (c) The Head of Internal Audit’s wider knowledge- heavily subordinated 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.
- 3.15 The Council has an adequate system of financial control. 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.
- 3.16 The assessment of processes for risk management and governance is more judgement based, although there has also been specific audit work. The council has taken significant steps 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.
- 3.17 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 little comparative benchmarking available about the size or costs of Internal Audit. Comparison of staffing numbers locally suggest that taking account of Council (and other) activity, the Kirklees IA team is smaller than might be typical based on functions and size of the organisation
- 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	76% from plan (including schools)
Achieve each planned audit within budgeted time allowed.	80% of planned work achieved within initial time budget	64%
Achieve high level of work quality and customer satisfaction.	90% good or better responses to customer questionnaires	Insufficient responses to ascertain
Delivery of completed audit work	85% of draft reports issued within 10 days of completion of site work	98%

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 use 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 The new Global Internal Audit Standards (GIAS) (prepared by the Institute of Internal Auditors) and a much-shortened additional Public Sector Internal Audit Standard requirements took effect in UK public bodies from 1st April 2025. In contents these standards are not substantially different from those in place during 2024/25, but they are more substantially codified and are more complex in terms of specific requirements. The changes were reported as a part of the IA Plan for 2025/26. As well as the continued requirement for five yearly external assessment (next required in 2027/28) there is a requirement to conduct annual internal assessments. The assessment has been conducted at the end of 2024/25, with a view to obtaining assurance about changes in practice needed to comply with requirements under the new GIAS. Appendix 1 shows the position from the 2022 external assessment and appendix 1A the position from the recent internal assessment.

6. Conclusions

- 6.1 This report has summarised the activities of Internal Audit during 2024/25. 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 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 70%. 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), although there are some cases where actions have not been taken in accordance with the timescales contained in agreed action plans.

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.

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Appendix 1

Recommendations from the External Assessment of Internal Audit 2022

Ref	Recommendation	Management Action & 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.	Redrafted to reflect GIAS 2025 requirements
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)	Consideration still required
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.	Significant turnover and an absence of candidates to standard required leaves this a challenging issue
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.	School work now reduced, and focused on schools with financial (or other issue)
2d	The ongoing development of the newer members of the team should be maintained	Ongoing
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.	Job titles being made more specific may aid recruitment (see2b)
3	The Counter Fraud Team	
	Continue further developing the Counter Fraud team to align with the revised counter fraud strategy	One team member studying for fraud qualification, others undertaking training
4	Code of Ethics	
	All audit staff could complete a separate ethics declaration covering all aspects highlighted in the Standards.	Part of KMC system, but specific declarations sought too
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.	Recruitment underway for two independent members
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	Revised reporting format implemented (2023/24) and more detail than before in public
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	The annual report contains these separate 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.	Additional information about recommendations to feature in all QRs

Appendix 1A Annual Review of Internal Audit- Internal assessment – 2025

For 2025, this assessment has reviewed current practice and activity against the new Global Internal Audit Standards (GIAS) that took effect from 1st April 2025 for UK Public Bodies. The new GIAS codifies in much more detail what is good practice is and does include both “must” areas and “should” areas, although there is opportunity to determine that certain areas are modified, or mitigated due to elements such as size, capacity, resourcing, and local circumstance.

	GIAS Source	Recommendations	Actions	Update
1	D2 1.1/ & 1.2 (p17) 4.3 (p33)	Importance that Internal Audit practitioners demonstrate inquisitiveness, and professional scepticism, and “professional courage”, and maintain ethical standards (e.g. honesty)	Reminder training to be carried out of all IA staff re these area of required practice	Summer 2025
2	D2 4.2(p31) D5 14.2 (p106)	All internal audit work requires clear scoping as to objectives; Objectives to set judgement criteria for assessment.	Managers and auditors to be reminded to prepare clear briefs for discussion/agreement with client, and auditors/managers to set judgement criteria	Summer 2025
3	D5 13.1 (p93)	Clarity of communication with client about engagement (as 2 above)		
4	D3 6.3 (p44)	Head of Audit should meet with CGAC without management presence once per year	To discuss with CGAC	
5	D3 8.2 (p54/5)	Ensure continued awareness of CGAC and management about resourcing position of IA	Head of Audit to ensure addressed in all quarterly reporting	From Q1 2025/26
6		Monitor IIA launch of “topical requirements” to determine extent to which these should be used in IA work	Head of Audit to monitor	As required
In GIAS report D= domain; n.n=paragraph: (pFF)=page				

Appendix 2 Time spent analysis by Head of Audit & Risk

Time spent analysis by Head of Audit & Risk		2024/25% All year	2023/24% all year	2022/23% all year
General Advice	Childrens	2	2	5
	Adults	9	6	3
	Environment & Regeneration	27	16	34
	Corporate	13	16	10
Fraud		2	4	6
Procurement & FPRs & CPRs		3	3	3
Risk Management		6	8	8
Trust Funds		14	17	12
CGAC advice		10	10 \$	8 \$
Management & Supervision		14	18	11

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

