

Annual Internal Audit Report
2021/22

1. Introduction and context

- 1.1 This report outlines the internal audit work carried out by Internal Audit for the year ended 31st March 2022.
- 1.2 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. Internal Audit helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.
- 1.3 Internal Audit is a statutory requirement for local authorities, in accordance with:
- Section 151 of the Local Government Act 1972 – which requires every local authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs; and
 - The Accounts and Audit Regulations 2018 (England) – which state that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.
- 1.4 Internal Audit independence is achieved by reporting lines which allow for unrestricted access to the Chief Executive, Senior Management Team (which includes the Section 151 Officer), and the Chair of the Audit & Risk Committee. Internal auditors have no direct operational responsibility or authority over any of the activities audited and the Internal Audit Charter sets out how independence and objectivity is maintained and evidenced.
- 1.5 The Public Sector Internal Audit Standards require the Chief Internal Auditor to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1 and takes into account other sources of assurance, as appropriate. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.
- 1.6 As such, the Annual Report contains:
- the Internal Audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
 - a summary of the audit work from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
 - a statement on the extent of conformance with the Standards.

2. Head of Internal Audit Opinion 2021/22

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

I am satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control for 2021/22. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

It is my opinion that **Satisfactory Assurance** can be given over the adequacy and effectiveness of the Council's control environment for 2021/22. This control environment comprises of the system of internal control, governance arrangements and risk management.

Financial control

Controls relating to the key financial systems which were reviewed during the year were concluded to be generally operating effectively, with all opinions for control environment and compliance being of at least Good Assurance.

Risk management

Structures and processes for identifying, assessing and managing risk have been further developed during 2021/22. An audit of Risk Management was delivered in 2021/22 and resulted in an opinion of Good Assurance for compliance. Following this audit, the Council has refreshed its directorate level risk register coverage and reviewed the content and format of risk management updates for Audit and Risk Committee. Risk management training was delivered during the year, for both officers and Members, to further develop and embed good practice in this area and ensure effective risk management arrangements.

Internal control

For the audits completed in 2021/22, 100% of the opinions given in relation to the control environment and compliance have been of at least Satisfactory Assurance.

Of the recommended actions agreed during 2021/22, and due for implementation, 85% had been completed during the year.

There have been no incidences where Internal Audit have highlighted a fundamental risk or weakness during 2021/22 and management have sought to accept the risk, rather than take appropriate action.

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

2.2 The basis for this opinion is derived from an assessment of the individual opinions arising from assignments from the risk-based Internal Audit plan that have been undertaken

throughout the year. Assurances from other sources have also been taken into consideration, where appropriate.

- 2.3 The assessment has taken account of the relative materiality of areas highlighted for improvement and management's progress in addressing any control weaknesses.

3. Summary of findings

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

Table 1 – Summary of audit opinions 2021/22:

Area	Substantial	Good	Satisfactory	Limited	No
Financial systems	4	2	-	-	-
Corporate controls and policy compliance	-	6	2	-	-
Corporate Governance and Counter Fraud	-	1	1	-	-
Corporate Objective: Sustainable growth	2	3	1	-	-
Corporate Objective: Safeguarding and Health and Wellbeing	1	4	1	-	-
Corporate Objective: Sound financial and workforce planning	-	1	1	-	-
Corporate Objective: Reaching our potential	1	1	-	-	-
Total	8	18	6	-	-
Summary	25%	56%	19%	-	-
2020/21 comparison	72%	17%	11%		

4. Review of audit coverage

Audit opinion on individual audits

- 4.1 The Committee is reminded that the following assurance opinions were assigned during 2021/22:

Table 2 – Assurance categories:

Level of Assurance	Definition
Substantial	There are minimal control weaknesses that present very low risk to the control environment. The control environment has substantially operated and either no, or some minor, errors have been detected.
Good	There are minor control weaknesses that present low risk to the control environment. The control environment has largely operated as intended although some errors have been detected.
Satisfactory	There are some control weaknesses that present a medium risk to the control environment. The control environment has mainly operated as intended although errors have been detected.
Limited	There are significant control weaknesses that present a high risk to the control environment. The control environment has not operated as intended. Significant errors have been detected.
No	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment. The control environment has fundamentally broken down and is open to significant error or abuse.

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

Summary of audit work

- 4.3 Table 3 details the assurance levels resulting from all audits undertaken in 2021/22 and the date of the Committee meeting at which the outcome of the audit was presented.
- 4.4 All completed assignments have been delivered in accordance with the agreed terms of reference and provide assurance in relation to the areas included in the specified scope.

Table 3 – Summary of audit opinions 2021/22:

Audit Area	Design of Control Environment	Compliance	Organisational Impact	Committee Date
Financial systems – providing assurance that the Council has made arrangements for the proper administration of its financial affairs				
Payroll	Substantial ●	Good ●	Minor ●	April 2022
Creditors	Substantial ●	Good ●	Minor ●	June 2022
Local taxation	Substantial ●	Substantial ●	Minor ●	June 2022
Corporate controls and policy compliance				
Contract procedure rule compliance	Good ●	Good ●	Minor ●	June 2022
Contract management	Good ●	Good ●	Minor ●	November 2021
Health and safety	Good ●	Satisfactory ●	Minor ●	September 2021
Cyber security	Satisfactory ●	Good ●	Moderate ●	April 2022
Corporate Governance and Counter Fraud				
Risk management	Satisfactory ●	Good ●	Minor ●	November 2021
Corporate Objective: Sustainable growth				
Waste contract procurement	Substantial ●	Substantial ●	Minor ●	June 2022
Development management	Good ●	Good ●	Minor ●	September 2021
Planning fee income	Satisfactory ●	Good ●	Minor ●	June 2022

Audit Area	Design of Control Environment	Compliance	Organisational Impact	Committee Date
Corporate Objective: Safeguarding and Health and Wellbeing				
Adult safeguarding	Substantial 	Good 	Minor 	April 2022
Integrated LD (Learning Disability) and ASD (Autistic Spectrum Disorders) Lifetime Offer	Satisfactory 	Good 	Minor 	April 2022
Payments to early years providers	Good 	Good 	Minor 	July 2021
Corporate Objective: Sound financial and workforce planning				
Asset management	Satisfactory 	Good 	Moderate 	June 2022
Corporate Objective: Reaching our potential				
Covid 19 recovery	Substantial 	Good 	Minor 	February 2022

4.6 Audit outcomes have been reported to the Audit and Risk Committee during the 2021/22 financial year.

Implementation of Internal Audit recommendations

4.7 Internal Audit follow up on progress made against all recommendations arising from completed assignments to ensure that they have been fully and promptly implemented. Internal Audit trace follow up action on a monthly basis.

4.8 A total of 14 audit recommendations have been implemented by officers during 2021/22, including some actions from previous years.

4.9 Details of the implementation rate for the audit recommendations made during 2021/22 are provided in Table 4, as at 31st March 2022.

Table 4 - Implementation of audit recommendations agreed in 2021/22:

	'High' priority	'Medium' priority	'Low' priority	Total
Agreed and implemented	-	6	5	11 (30%)
Agreed and not yet due for implementation	2	13	9	24 (65%)
Agreed and due within last 3 months, but not implemented	-	-	-	0
Agreed and due over 3 months ago, but not implemented	-	-	2	2 (5%)
TOTAL	2	19	16	37 (100%)

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

Table 5 - Summary of overdue recommendations from 2021/22

Audit	Audit Year	High		Medium		Low	
		Over 3 months overdue	Under 3 months overdue	Over 3 months overdue	Under 3 months overdue	Over 3 months overdue	Under 3 months overdue
Development management	2021/22	-	-	-	-	1	-
Health and safety	2021/22	-	-	-	-	1	-
Totals		0	0	0	0	2	0

4.11 As shown in Table 5, the only overdue actions are of 'low' priority. Actions of this level are not assessed as posing a risk to the organisation but tend to reflect potential for further improvement and efficiency.

5. Internal Audit contribution and performance

Added value

- 5.1 It is important that Internal Audit demonstrates its value to the organisation. The service provides assurance to management and Members via its programme of work and also offers support and advice to assist the Council in new areas of work.
- 5.2 During 2021/22, the Internal Audit service was delivered under the shared service arrangement led by Milton Keynes Council. From 1st April 2022, this service is to be led by the new North Northamptonshire Council Internal Audit service.
- 5.3 The Internal Audit service's performance against its key performance indicators for 2021/22 is summarised in Table 6.

Table 6 – Internal Audit KPIs 2021/22

Indicator description	Target	Actual
Delivery of the agreed annual Internal Audit Plan to at least draft report stage by 31 st March 2022	90%	89%
Overall delivery of the agreed annual Internal Audit Plan by deadline for Annual Report	100%	100%
Customer Feedback – rating on a scale of 1 to 4 (average) Whereby: 1 = Poor, 2 = Satisfactory, 3 = Good and 4 = Outstanding	3.2 (average)	3.25 (average)

Internal Audit contribution in wider areas

- 5.4 Key additional areas of Internal Audit contribution to the Council in 2021/22 are set out in Table 7:

Table 7 – Internal Audit contribution

Area of Activity	Benefit to the Council
Providing independent advice and guidance on risk management and embedding of the risk management strategy and registers.	Embedding a risk management culture and seeking to continue to develop the organisation's risk maturity. This also gives Internal Audit an insight into the

Area of Activity	Benefit to the Council
	emerging risks identified and areas where assurance is needed.
Sharing advice and fraud alerts in relation to the Covid-19 business grants.	Pro-active counter fraud support and learning from other authorities.
Providing a point of contact for Whistleblowing, to enable concerns to be raised directly with Internal Audit.	Supporting the Council in its Counter Fraud strategy and reinforcing a zero tolerance culture.
Maintaining good working relationships with External Audit.	Maximising value of audit resources.
Ad hoc advice and assistance.	Assistance with ad-hoc queries and advice. Raising the profile of Internal Audit with service leads to increase the effectiveness of the service.

Professional Standards

- 5.5 The Public Sector Internal Audit Standards (PSIAS) were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) from April 2013. The standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.
- 5.6 The objectives of the PSIAS are to:
- Define the nature of internal auditing within the UK public sector;
 - Set basic principles for carrying out internal audit in the UK public sector;
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 5.7 During 2021/22, the Internal Audit service was delegated to a shared service led by Milton Keynes Council. A detailed self-assessment against the PSIAS was completed by the Chief Internal Auditor and the outcome of the assessment was that the Internal Audit service was operating in general conformance with the Standards.
- 5.8 From 1st April 2022, the Internal Audit service is being delivered in house and a Quality Improvement Plan is being drafted by the Chief Internal Auditor to support ongoing development, in line with the Standards. Assessment against the Standards will be embedded in the delivery of the service and ongoing development work. An external assessment must be completed at least every five years and the timing and outcome of such external assessments will be reported to the Audit and Risk committee.

5.9 The Chief Internal Auditor can confirm that there has been no evidence of impairment of the independence of the Internal Audit team during 2021/22 and no auditors have reviewed systems/controls which they have been responsible for delivering.

Appendix A: Limitations and responsibilities

Limitations inherent to the Internal Audit's work:

Our work has been performed subject to the limitations outlined below:

Opinion

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

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to the areas audited is for the period 1st April 2021 to 31st March 2022. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities.

However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.