



**Annual Internal Audit Report and Opinion
2022/23**

1. Introduction and context

- 1.1 This report outlines the audit work carried out by the Internal Audit Service for the year ended 31st March 2023.
- 1.2 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. Internal audit helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, compliance and governance processes.
- 1.3 Internal audit is a statutory requirement for local authorities, in accordance with:
- Section 151 of the Local Government Act 1972 – which requires every local authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs; and
 - The Accounts and Audit Regulations 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 The Council's internal audit service has been delegated to North Northamptonshire Council and is led by the Chief Internal Auditor, employed by North Northamptonshire Council. Internal audit independence is achieved by reporting lines which allow for unrestricted access to the Chief Executive, Corporate Leadership Team (which includes the Section 151 Officer), and the Chair of the Audit and 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 2022/23

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

I am satisfied that sufficient internal audit work has been undertaken to inform an opinion on the adequacy and effectiveness of governance, risk management and internal control for 2022/23. 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 2022/23 – see definition of assurance opinions in section 4.1 of this report. This control environment comprises of the system of internal control, governance arrangements and risk management. Any limitations over this opinion are detailed and explained further below.

Financial control

Controls relating to the key financial systems which were reviewed during the year were all concluded to be operating at a level of Satisfactory Assurance or above, with 100% receiving opinions of Good or Substantial Assurance.

Risk management

The Council's structures and processes for identifying, assessing and managing risk have remained generally consistent during 2022/23. Directorate level risk registers have been subject to review during the year, with support from the Council's insurance provider, and the Strategic Risk Register was reported to the Audit and Risk Committee in September 2022. Rolling risk register reviews were introduced by Internal Audit in 2022/23 and have received positive feedback from the Audit and Risk Committee on the value of this work, in giving assurance over the effectiveness of risk management arrangements.

Internal control

For the audits completed by the Internal Audit service in 2022/23 and finalised at the time of reporting, 94% of the opinions given in relation to the control environment and compliance have been of at least Satisfactory Assurance.

The audit plan coverage had targeted areas of known risk and was informed through consultation with senior management and the Audit and Risk Committee. Based on the audit findings, an opinion of Limited Assurance was given on compliance with controls for Home to School Transport. This reflected that the controls had not been consistently applied during the 2022/23 financial year, primarily due to staff vacancies. The organisational risk associated with this was assessed as Major, given the potential safeguarding risks associated with this service. Management agreed an action plan to address the findings and this will be subject to follow up work in 2023/24 – at the time of producing the annual report, a key 'High' priority action has been completed and progress has been made in relation to all actions. An opinion of Limited Assurance has also been given in relation to compliance on the Highways Maintenance Contract, as controls agreed following previous audits have yet to be fully

embedded in some areas of the contract management. This, again, has been attributed to changes in staff and covering for vacancies/periods of maternity leave. Actions arising from these audits will be subject to ongoing follow up by Internal Audit in 203/24.

Of the agreed management actions due for implementation during 2022/23, 65% had been completed during the year.

There have been no incidences during 2022/23 where the internal audit team have highlighted a fundamental risk or weakness and management have sought to accept the risk, rather than agree an appropriate action.

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

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

3. Summary of findings

2.4 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 2022/23:

Area	Substantial	Good	Satisfactory	Limited	No
Financial systems	7	1	-	-	-
Key corporate controls and policies	-	5	3	-	-
Corporate objective: Protecting the vulnerable	-	3	7	-	-
Corporate objective: Delivering sustainable development	-	1	-	1	-
Corporate objective: Customer focused services	-	2	1	1	-
ICT reviews	-	-	2	-	-
Total	7	12	13	2	-
Summary	21%	35%	38%	6%	-
Summary (2021/22) for comparison	25%	56%	19%	-	-

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

4. Review of audit coverage

Audit opinion on individual audits

- 4.1 The Committee is reminded that the following assurance opinions were assigned during 2022/23, in accordance with the Internal Audit Charter:

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 as expected and either no, or only 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 and 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, unless otherwise stated. As such, the findings have been agreed with management, together with the accompanying action plans.

Summary of audit work

- 4.3 Table 3 details the assurance levels resulting from all audits undertaken in 2022/23 and the date of the Committee meeting at which the outcome of the audit was presented.
- 4.4 All completed assignments have been delivered in accordance with the agreed audit planning records and provide assurance in relation to the areas included in the specified scope.

Table 3 – Summary of finalised audit opinions 2022/23:

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				
Debtors	Substantial 	Substantial 	Minor 	June 2023
Main accounting	Substantial 	Substantial 	Minor 	June 2023
Treasury management	Substantial 	Substantial 	Minor 	June 2023
Housing benefit	Substantial 	Good 	Minor 	March 2023
Key corporate controls and policies				
Contract procedure rule compliance	Good 	Good 	Minor 	June 2023
Social care debt recovery	Satisfactory 	Satisfactory 	Minor 	November 2022
Performance management	Good 	Good 	Minor 	March 2023
Business continuity management	Satisfactory 	Good 	Minor 	June 2023
Corporate objective: Protecting the vulnerable				
Corporate parenting	Satisfactory 	Satisfactory 	Minor 	September 2022
Readiness for CQC inspections	Satisfactory 	Satisfactory 	Minor 	June 2023
Children missing from care	Good 	Satisfactory 	Minor 	March 2023

Audit Area	Design of Control Environment	Compliance	Organisational Impact	Committee Date
MiCare services	Good 	Good 	Minor 	September 2022
Safer recruitment in schools	Satisfactory 	Satisfactory 	Moderate 	June 2023
Corporate objective: Delivering sustainable development				
Highways maintenance contract (draft)	Good 	Limited 	Moderate 	June 2023
Corporate objective: Customer focused services				
Home to school transport	Good 	Limited 	Major 	June 2023
Taxi licensing	Satisfactory 	Good 	Moderate 	November 2022
ICT risk related reviews				
IT asset management	Satisfactory 	Satisfactory 	Minor 	June 2023

4.5 Audit outcomes have been reported to the Audit and Risk Committee during the 2022/23 financial year.

Implementation of agreed management actions

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

4.7 A total of 28 agreed actions have been implemented by officers during 2022/23, which represents 65% of the actions which were due for implementation.

4.8 Details of the implementation rate for the agreed management actions during 2022/23 are provided in Table 4, as at 31st March 2023.

Table 4 - Implementation of agreed management actions due in 2022/23:

	'High' priority	'Medium' priority	'Low' priority	Total
Agreed and implemented	1	13	14	28 (65%)
Agreed and due within last 3 months , but not implemented	1	5	1	7 (16%)
Agreed and due over 3 months ago , but not implemented	1	5	2	8 (19%)
Total	3	23	17	43 (100%)
Agreed and not yet due for implementation	2	11	5	18

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

Table 5 - Summary of overdue recommendations at 31st March 2023

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
Asset management	21/22	1	1	2	2	-	-
Home to school transport	22/23	-	-	-	1	-	-
Corporate parenting	22/23	-	-	2	1	-	-
Budgetary control	21/22	-	-	-	-	2	-
Cyber security	21/22	-	-	1	-	-	-
Health & safety	21/22	-	-	-	-	1	-
Planning income	21/22	-	-	-	1	-	-
Totals		1	1	5	5	3	1

Performance

- 5.1 It is important that Internal Audit demonstrates its value to the organisation. The service provides assurance to management and Members via its programme of work and also offers constructive support and advice to assist the Council in new areas of work.
- 5.2 Since 1st April 2022, the Council’s internal audit service has been delegated to North Northamptonshire Council. During this year, a number of successful recruitment campaigns have resulted in the appointment of auditors from a variety of backgrounds which will serve to strengthen the depth and breadth of the team. The team have built effective working relationships with service areas and seek to continue to build upon the positive feedback and reputation built to date.
- 5.3 In April 2023, the Internal Audit service had issued draft or final reports on approximately **85%** of the in-house assignments from the 2022/23 Audit Plan – with some assignments delayed at management request, or due to delays in receiving evidence. All reports have been issued as at the time of producing the annual report.
- 5.4 In order to seek feedback on the quality of the internal audit work, customer satisfaction surveys are issued following the conclusion of audit assignments. The feedback received on audits delivered during the 2022/23 year is summarised in table. Of the feedback received 97% rated the elements of the service as either ‘good’ or ‘outstanding’. The communication during audit assignments was noted as receiving particularly high feedback in 2022/23, with 38% of respondents rating the communication as ‘outstanding’.

Table 5 – Customer satisfaction survey results

Aspects of audit assignments	Outstanding	Good	Satisfactory	Poor
Design of assignment	25%	63%	13%	-
Communication during assignments	38%	63%	-	-
Quality of reporting	29%	71%	-	-
Quality of recommendations	29%	71%	-	-

Internal Audit contribution in wider areas

- 5.5 Key additional areas of Internal Audit contribution to the Council in 2022/23 are set out in Table 6:

Table 6 – Internal Audit contribution

Area of Activity	Benefit to the Council
Introducing rolling risk register reviews.	Providing the Audit and Risk Committee with assurances over the risk register entries and risk management arrangements. This also gives Internal Audit an insight into the

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

Professional Standards

5.6 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.

5.7 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.

5.8 Since 1st April 2022, the Internal Audit service has been delegated to North Northamptonshire Council and the Quality Assurance and Improvement Plan is overseen by the current Chief Internal Auditor to support ongoing development, in line with the Standards. Assessment against the Standards will be embedded in the delivery of the service and ongoing development work. An external assessment must be completed at least every five years and the timing of the first external assessment will be agreed with the s151 Officer and Chair of the Audit and Risk Committee. The Institute of Internal

Auditors are currently conducting a review of Standards with a view to introducing new Global Internal Audit Standards, which may introduce some changes to the requirements. The approach to external assessments should be informed by the outcome of this review.

- 5.9 A self-assessment by the Chief Internal Auditor confirms that the service is operating in general conformance with the Standards. The Quality Assurance and Improvement Plan for the Internal Audit team for the year ahead includes developing work on a Data Analytics Strategy for the audit service; and raising the profile of the internal audit service.
- 5.10 The Chief Internal Auditor can confirm that there has been no evidence of impairment of the independence of the Internal Audit team during 2022/23 and no auditors have reviewed systems/controls which they have been responsible for delivering. Every member of the Internal Audit team completes an annual declaration of any interests which could present a conflict of interest and confirmation of acceptance of the code of ethics.

Appendix 1: Limitations

Limitations inherent to the Internal Audit's work:

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

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our agreed annual programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit and Risk 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 2022 to 31st March 2023. 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.