

## BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

<b>COMMITTEE:</b> Joint Audit and Standards Committee	<b>REPORT NUMBER:</b> <b>JAC/23/04</b>
<b>FROM:</b> Corporate Manager – Internal Audit	<b>DATE OF MEETING:</b> 31st July 2023
<b>OFFICER:</b> Corporate Manager – Internal Audit	<b>KEY DECISION REF NO.</b> N/A

### ANNUAL INTERNAL AUDIT REPORT 2022/23

#### 1. PURPOSE OF REPORT

- 1.1 The work of Internal Audit is governed by the Accounts and Audit Regulations 2015 and relevant professional bodies. The UK Public Sector Internal Audit Standards (PSIAS) require that the Corporate Manager – Internal Audit must deliver an annual audit opinion and report that can be used by the Councils' to inform its Annual Governance Statement.
- 1.2 The Annual Internal Audit Opinion must conclude on the overall adequacy and effectiveness of the Councils' control environment – framework of governance, risk management and internal control.
- 1.3 In addition, the Accounts and Audit Regulations 2015 require the Councils, each year, to 'conduct a review of the effectiveness of the system of internal control'.
- 1.4 The annual report must therefore incorporate:
  - a. The annual opinion on the overall adequacy and effectiveness of the Councils' governance, risk and control framework.
  - b. A summary of the work that supports the annual opinion.
  - c. The performance of Internal Audit against its performance measures and criteria.
  - d. A statement on conformance with the PSIAS and the results of the Internal Audit Quality Assurance and Improvement Programme (QAIP).
  - e. Disclosure of any qualifications to the opinion, together with reasons for the qualification.
  - f. Disclosure of any impairments or restriction in scope.
- 1.5 This report also provides Councillors with a review of the variety and scope of projects and corporate activities which are supported through the work of the team.

#### 2. OPTIONS CONSIDERED

- 2.1 This is a regulatory report and there are no options to consider.

### **3. RECOMMENDATIONS**

3.1 The Committee is asked to:

3.1.1 Consider and support the conclusion that the Councils' system of internal control is effective; and

3.1.2 Confirm that the 2022/23 opinion of the Corporate Manager – Internal Audit, based on his assessment of effectiveness, can be relied upon as a key source of evidence in the Annual Governance Statement.

### **REASON FOR DECISION**

This recommendation is within the Committee's term of reference, which includes receiving an annual report from the Corporate Manager – Internal Audit.

### **4. KEY INFORMATION**

4.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states 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 (PSIAS) or guidance.'

4.2 The Regulations also require a committee of the relevant authority, each financial year, to 'conduct a review of the effectiveness of the system of internal control.'

4.3 The PSIAS define the way in which the Internal Audit Service should be established and undertake its functions. The Councils' Internal Audit Service carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to the Joint Audit and Standards Committee.

4.4 The PSIAS also require that an independent and objective opinion be given on the overall adequacy and effectiveness of the control environment, comprising risk management, control, and governance, from the work undertaken by the Internal Audit Service.

#### **Responsibilities**

4.5 Management is responsible for establishing and maintaining appropriate risk management processes, control systems and governance arrangements.

4.6 The primary role of Internal Audit is to provide independent assurance and challenge to the management and Councillors that the Councils maintain an effective control environment that enables it to manage its risks, governance arrangements and its internal control processes and that they are operating effectively.

4.7 Internal Audit is not the only source of assurance for the Councils. There are a range of external audit and inspection agencies as well as management processes which also provide levels of assurance. These are set out in the Councils' Local Code of Governance and within its Annual Governance Statement.

#### **Internal Audit Report and Corporate Manager – Internal Audit Opinion**

4.8 The annual audit report summarises the results of internal audit work carried out during 2022/23 and, as required by the Accounts and Audit Regulations 2015, gives an overall opinion on the Councils' control environment.

- 4.9 The annual report also covers the effectiveness of the Internal Audit function.
- 4.10 The annual opinion of the Corporate Manager – Internal Audit is based on the overall adequacy and effectiveness of the Councils’ framework of governance, risk management and control in accordance with the PSIAS. It is one of the main sources of assurance for the Annual Governance Statement.
- 4.11 In accordance with professional standards the Corporate Manager – Internal Audit’s opinion is independent and objective. The opinion reflects the work carried out during the year and summarises the main findings and conclusions together with any specific concerns that the Corporate Manager – Internal Audit may have.
- 4.12 The overall opinion of the Corporate Manager – Internal Audit for 2022/23 is:

**I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of both Council’s internal control environment.**

**In my opinion both Council’s framework of governance, risk management and control is ‘Reasonable’ and the results of audit work has demonstrated controls to be working in practice.**

**This is based on the findings of the audit work carried out throughout 2022/23 and evidence from other assurance providers. Where weaknesses have been identified, we have worked with management to agree appropriate corrective actions and timescale for implementation.**

**I do not consider there to be any areas of significant corporate concern.**

### **Effectiveness**

- 4.13 With regard to ‘effectiveness of the system of internal control’ the Committee can take assurance that there is an effective Internal Audit function. This is demonstrated through compliance with PSIAS, Accounts and Audit Regulations and CIPFA guidance and the results of customer satisfaction surveys show good levels of effectiveness are being achieved.
- 4.14 All public sector internal audit services are required to assess their performance on conforming to the standards and this is achieved by undertaking periodic self-assessments and an external quality assessment at least once in a five-year period. The most recent external quality assessment, in the form of a full assessment, was undertaken in February 2023. The external assessor was able to report that the Internal Audit function at Babergh and Mid Suffolk Councils conform with the PSIAS. No areas of non-compliance were identified that would affect the overall scope or operation of the internal audit activity and the function is valued and well-regarded across the Councils. Fuller details are contained within the main body of the annual report.

## **5. LINKS TO CORPORATE PLAN**

- 5.1 The delivery of a comprehensive Internal Audit service supports the strategic priorities within the Councils’ Corporate Plan, in particular ensuring the right people are doing the right things, in the right way, at the right time, for the right reasons.
- 5.1 Appendix A provides a summary of the work undertaken under the relevant strategic priorities. This work will contribute to the 2022/23 overall Internal Audit opinion on the

Councils' control environment provided by the Corporate Manager – Internal Audit, as required by the Accounts and Audit (England) Regulations 2015.

## 6. FINANCIAL IMPLICATIONS

6.1 There are no direct financial implications arising from this report. All Internal Audit recommendations must be considered in terms of their cost effectiveness.

## 7. LEGAL IMPLICATIONS

7.1 There are no direct legal implications arising from this report.

## 8. RISK MANAGEMENT

8.1 This report is not directly linked with any one of the Councils' Significant Risks. The key risk, however, is set out below:

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
Internal controls within each Council may not be efficient and effective.  As a result, each Council may not identify any significant weakness that could impact on the achievement of their aims and/or lead to fraud, financial loss or inefficiency.	Unlikely 2	Bad 3	Councillors receive and approve the Internal Audit work programme and other reports on internal controls throughout the year.  The work programme is based on an assessment of risk for each system or operational area.	Internal Audit Risk Register – Risk reference no. 5.
Issues raised by Internal Audit are not appropriately actioned by management leading to weak systems of internal control and potential risk of theft and fraud.	Unlikely 2	Bad 3	Reporting of internal audit main findings and tracking of high priority recommendations.	Internal Audit Risk Register – Risk reference no. 3.
Audit programme slippage leading to the approved programme of work not being delivered.	Unlikely 2	Bad 3	Regular reporting on internal audit progress.	Internal Audit Risk Register – Risk reference no. 6.

## 9. CONSULTATIONS

- 9.1 The 2022/23 Internal Audit Plan was approved by the Joint Audit and Standards Committee on 28<sup>th</sup> March 2022 (Paper JAC/21/21), having previously been endorsed by the S151 Officer and the Senior Leadership Team.
- 9.2 As part of the preparation for this Plan, auditors engaged with senior management to identify their view of the coming year's risks linked to the Corporate Plan and Delivery Programme, and to gather and map management assurance across the Councils' functions.
- 9.3 During preparation, this report has been shared with both Chairs of the Joint Audit and Standards Committee and the Senior Leadership Team, including the Section 151 Officer and the Interim Director, Law and Governance and Monitoring Officer.

## 10. EQUALITY ANALYSIS

- 10.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

## 11. ENVIRONMENTAL IMPLICATIONS

- 11.1 There are no environmental implications arising from this report.

## 12. APPENDICES

Title	Location
(a) Appendix A - Overview of Internal Audit Work	Attached

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