



Annual Internal Audit Report and Opinion

2023/24

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 2024.
- 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 Standards 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. Chief Internal Auditor Opinion 2023/24

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 2023/24. 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 **Moderate Assurance** can be given over the adequacy and effectiveness of the Council's control environment for 2023/24 – 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

During 2023/24 a new finance system has been implemented which incorporates a number of key financial controls, including the main accounting system (general ledger), creditor payments (accounts payable) and sundry debtors (accounts receivable). Given that the new system was implemented in November 2023, it was agreed with management that the 2023/24 internal audit coverage would focus on walkthrough testing to assess control design in the new system, as full compliance testing was considered impractical at this stage. Consequently, no compliance assurance rating was given as part of the 2023/24 audit coverage for key financial systems and no opinion can be given at this time.

Based on the audit findings, good assurance was provided over the migration of data and balances to the new system. As part of the implementation process, officers stated that priority was given to ensuring that effective controls and process were operational in respect of the creditors system and audit testing confirmed this to be the case. Other controls were scheduled for development in the post-implementation stage and this placed further restrictions on the scope of the audit. Specifically, bank reconciliations, control account reconciliations, clearance of suspense accounts and sundry debtor processes (billing and recovery) all remained in development at the time of audit. Consequently, full testing was not possible in these areas. Continued management focus and staff resources are required to ensure all processes and controls are implemented as soon as possible. Further work is also required to ensure a complete and accurate set of procedure notes are in place covering all aspects of the new system.

A report from the internal auditors for Leicestershire Revenues and Benefits Partnership for 2023/24 has been provided. The report provides 'moderate' assurance over controls for administering housing benefit and local council tax support. The audit report provides third party assurance over the controls for processing and paying claims, in accordance with partnership policies. The priority area highlighted for improvement was in relation to overpayment recovery - with £715,844.58 of the overpayment balance relating to

Harborough District Council debts. Assurances will be sought in relation to action taken to recover overpayments during 2024/25.

Risk management

The Council's structures and processes for identifying, assessing and managing risk have remained generally consistent during 2023/24. The Internal Audit plan was risk based and informed by the Council's risk management framework and reporting.

Internal control

For the audits completed by the Internal Audit service in 2023/24 and finalised at the time of reporting, 100% of the opinions given in relation to the control environment and compliance have been of at least Moderate Assurance.

An area of limitation on the assurance opinion for 2023/24 currently relates to cyber security. Audit coverage has been progressing in this area during 2023/24 but remains ongoing at the time of reporting – as such, an assurance opinion cannot yet be provided. An interim report has been issued to management whilst further sources of assurance are gathered by the IT service and an assurance opinion will be given once remaining work is concluded.

Of the agreed management actions due for implementation during 2023/24, 54% had been completed during the year.

There have been no incidences during 2023/24 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 significant 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

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 2023/24:

Area	Substantial	Good	Moderate	Limited	No
Financial systems	-	-	1	-	-
Key corporate controls and policies	-	4	4	-	-
Corporate objective: Healthy lives	-	2	-	-	-
Corporate objective: Place and community	-	3	1	-	-
Corporate objective: Environment and sustainability	-	-	2	-	-
Corporate objective: Economy	-	-	2	-	-
Total	-	9	10	-	-
Summary	-	47%	53%	-	-
Summary (2022/23) for comparison	6%	50%	44%	-	-

3.2 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 2023/24, in accordance with the Internal Audit Charter:

Table 2 – Assurance categories:

Level of Assurance	Design of control environment definition	Compliance definition
Substantial	There is a sound system of internal control to support delivery of the objectives.	The control environment is operating as intended with no exceptions noted which pose risk to delivery of the objectives.
Good	There is generally a sound system of internal control, with some gaps which pose a low risk to delivery of the objectives.	The control environment is generally operating as intended with some exceptions which pose a low risk to delivery of the objectives.
Moderate	There are gaps in the internal control framework which pose a medium risk to delivery of the objectives.	Controls are not consistently operating as intended, which poses a medium risk to the delivery of the objectives.
Limited	There are gaps in the internal control framework which pose a high risk to delivery of the objectives.	Key controls are not consistently operating as intended, which poses a high risk to the delivery of the objectives.
No	Internal Audit is unable to provide any assurance that a suitable internal control framework has been designed.	Internal Audit is unable to provide any assurance that controls have been effectively applied in practice.

- 4.2 All individual reports represented in this Annual Report are final reports. 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 2023/24 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 2023/24:

Audit Area	Design of Control Environment	Compliance	Organisational Impact	Committee Date
Financial systems				
Financial system key controls	Moderate (Amber)	-	Medium (Amber)	July 2024
Key corporate controls and policies				
Managing major projects	Good (Green)	Moderate (Amber)	Medium (Amber)	October 2023
Information governance	Good (Green)	Moderate (Amber)	Medium (Amber)	April 2024
Procurement compliance	Moderate (Amber)	Moderate (Amber)	Medium (Amber)	July 2024
Decision making and delegations	Good (Green)	Good (Green)	Low (Green)	July 2024
Corporate objective: Healthy lives				
Leisure services project – embedded assurance	Good (Green)	Good (Green)	Low (Green)	April 2024
Corporate objective: Place and community				
Homelessness and temporary accommodation	Moderate (Amber)	Good (Green)	Medium (Amber)	April 2024
Local Plan development project	Good (Green)	Good (Green)	Low (Green)	April 2024
Corporate objective: Environment and sustainability				
Climate emergency action plan	Moderate (Amber)	Moderate (Amber)	Medium (Amber)	April 2024
Corporate objective: Economy				
Enforcement policy compliance	Moderate (Amber)	Moderate (Amber)	Low (Green)	October 2023

4.5 Audit outcomes have been reported to the Audit and Standards Committee during the 2023/24 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 Standards Committee meeting.

4.7 A total of 30 agreed actions have been implemented by officers during 2023/24, which represents 54% of the actions which were due for implementation.

4.8 Details of the implementation rate for the agreed management actions during 2023/24 are provided in Table 4, as at 31st March 2024.

Table 4 - Implementation of agreed management actions due in 2023/24:

	'High' priority	'Medium' priority	'Low' priority	Total
Agreed and implemented	1	22	7	30 (54%)
Agreed and due within last 3 months , but not implemented	1	4	-	5 (9%)
Agreed and due over 3 months ago , but not implemented	-	14	7	21 (37%)
Total	2	40	14	56
Agreed and not yet due for implementation	1	7	-	8

Other sources of assurance

4.9 The Council's revenues and benefits service is delegated to Leicestershire Revenues and Benefits Partnership. As such, third party assurances are sought from the partnership's internal auditor in relation to the controls within these systems. An audit

report for 2023/24 has been received in respect of the partnership. The report gives a 'Moderate' opinion over the controls in place for housing benefit and local council tax support claims. Sample sizes were generally of 10 or less and it is not confirmed as to the proportion which related to Harborough District Council transactions.

- 4.10 The report provides positive assurance, based on sample testing, in relation to accurate processing of claims in line with the Partnerships policies and procedures. The audit also reported accurate payments were being made in line with the Benefits Officer's assessment for a sample of claimants. The audit highlighted, however, cases where claimants were no longer receiving benefits and consistent action was not being taken to reduce overpayment arrears. The total balance of outstanding debt in respect of such overpayments was £2,994,037.83 as at April 2024, of which £715,844.58 related to Harborough District Council debts. Assurances will be sought in relation to action taken in the areas for improvement during 2024/25.

5. 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 The Internal Audit service has issued draft or final reports on 100% of the agreed assignments from the 2023/24 Audit Plan. The initial planned audit of the environmental services contract procurement was postponed, to align with the procurement process, and will be included in future audit coverage.
- 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 2023/24 year is summarised in table. Of the feedback received 100% rated the elements of the service as either 'good' or 'outstanding'.

Table 5 – Customer satisfaction survey results

Aspects of audit assignments	Outstanding	Good	Satisfactory	Poor	Not applicable
Design of assignment	3	4	-	-	-
Communication during assignments	5	1	-	-	1
Quality of reporting	4	3	-	-	-
Quality of recommendations	3	4	-	-	-

Internal Audit contribution in wider areas

- 5.5 Key additional areas of Internal Audit contribution to the Council in 2023/24 are set out in Table 6:

Table 6 – Internal Audit contribution

Area of Activity	Benefit to the Council
Ad hoc advice and assistance.	Assistance with ad-hoc queries and advice. Raising the profile of Internal

Area of Activity	Benefit to the Council
	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 a Quality 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 Standards Committee. The Institute of Internal Auditors have produced new Global Internal Audit Standards which will apply from January 2025 and this needs to be considered in setting a timing for the external assessment.

- 5.9 A self-assessment by the Chief Internal Auditor confirms that the service is operating in general conformance with the Standards. The Quality and Improvement Plan for the Internal Audit team for the year ahead includes aligning processes with the new Global Internal Audit Standards and continuing to promote use of data analytics in the audit process.
- 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 2023/24 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 Standards 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 2023 to 31st March 2024. 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.