






ANNUAL HEAD OF INTERNAL AUDIT REPORT 2022/23

Date: 29 March 2023

ANNEX 1



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BACKGROUND

- 1 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the Council's audit charter. These require the Head of Internal Audit to bring an annual report to the Audit and Governance Committee.
- 2 The report must include an opinion on the adequacy and effectiveness of the council's framework of governance, risk management and control. The report should also include:
 - (a) any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
 - (b) any particular control weakness judged to be relevant to the preparation of the annual governance statement
 - (c) a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
 - (d) an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme, including a statement on conformance with the PSIAS.



INTERNAL AUDIT WORK CARRIED OUT IN 2022/23

- 3 The financial year 2022/23 has been dominated by preparations for local government reorganisation (LGR). This was anticipated at the beginning of the year when the internal audit work programme was presented to this committee in April 2022.
- 4 The approach to internal audit delivery has been significantly different to previous years. This was intentional and designed to ensure that we could provide support but also assurance in areas of most importance from a risk or priority perspective, while recognising the demands on officers due to LGR. This has required, in some instances, careful programming and planning to deliver financial systems work and, in others, a need to be flexible and responsive, picking up and pausing audit work in response to pressures facing service areas.
- 5 In addition to internal audit work undertaken directly for Selby District Council, Veritau has supported all eight councils involved in the transition to North Yorkshire Council through its attendance at, and contributions to, various LGR workstreams throughout 2022/23. A portion of our time this year has been spent providing direct support and advice to these workstreams.
- 6 Senior managers at Selby District Council have continued to support delivery of internal audit work as far as they have been able during 2022/23. As in a typical year, work has been prioritised based on risk and the need to provide coverage of the Council's framework of governance, risk management and control. However, particular emphasis has been given to providing assurance on the continued effective operation of the

Council's key financial systems amidst the changes and pressures brought about by LGR.

- 7 Given the significant increase in LGR workloads on top of usual responsibilities, and the related impact on availability of Council staff throughout the year, as well as the earlier than usual reporting of our work to this committee¹ (our annual Head of Internal Audit report is usually presented in July) not all audits have been completed. A small number of audits identified as priority audits at the time the work programme was presented in April 2022 have not been undertaken.
- 8 Despite this, we have been able to deliver a body of internal audit work during the year which, overall, has resulted in good coverage of the Council's framework of governance, risk management and control.
- 9 The results of completed audit work have been reported to the responsible officers, the Chief Finance Officer and to the Audit and Governance committee during the year. An overview of our work in 2022/23 is included in appendix A.
- 10 Appendix B provides details of the key findings arising from the benefits audit, which has been finalised since the last meeting of this committee.
- 11 Appendix C provides an explanation of our assurance levels and priorities for management action.

FOLLOW UP OF AGREED ACTIONS

- 12 It is important that agreed actions are followed up to ensure they have been implemented. Veritau has followed up agreed actions during the year, taking account of the timescales previously agreed with management for implementation. As a result of this work, we are satisfied that sufficient progress has been made to address control weaknesses identified in previous audits. We anticipate that remaining outstanding actions will either have been satisfactorily completed prior to vesting day or that plans will be in place to address them within a reasonable time thereafter (as part of control improvements that are implemented locally but within the new North Yorkshire Council).
- 13 During 2022/23 issues were identified from work on information security and health and safety related to homeworking, and housing repairs and maintenance, with limited assurance opinion reports being presented to the Audit and Governance committee. The issues related to information security and health and safety have been satisfactorily addressed by management during the year. Issues identified in the housing repairs and maintenance audit are being addressed and progress has been made but

¹ Regulation 11 of the Local Government (Structural Changes) (Further Transitional and Supplementary Provision and Miscellaneous Amendments) Regulations 2009/276 provides that each district council must, in accordance with Regulation 6 of the Accounts and Audit Regulations 2015, prepare and approve an Annual Governance Statement (AGS) prior to the reorganisation date. This must be signed by the district council Leader and its Head of Paid Service (Chief Executive). Internal audit's opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control is a key source of assurance in preparing the AGS and the reason why the annual report of the Head of Internal Audit is being presented at this meeting.

work needs to continue to ensure that sound systems of control are in place to effectively manage housing assets.

PROFESSIONAL STANDARDS

- 14 In order to comply with Public Sector Internal Audit Standards (PSIAS) the Head of Internal Audit is required to develop and maintain an ongoing quality assurance and improvement programme (QAIP). The objective of the QAIP is to ensure that working practices continue to conform to professional standards. The results of the QAIP are reported to the committee each year as part of the annual report. The QAIP consists of various elements, including:
- maintenance of a detailed audit procedures manual and standard operating practices
 - ongoing performance monitoring of internal audit activity
 - regular customer feedback
 - training plans and associated training and development activities
 - periodic self-assessments of internal audit working practices (to evaluate conformance to the standards).
- 15 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The most recent external assessment of Veritau internal audit working practices was undertaken in November 2018². This concluded that Veritau internal audit activity generally conforms to the PSIAS³.
- 16 The outcome of the last QAIP (reported to this committee in July 2022) demonstrated that the service continued to conform to the PSIAS. The results of the self-assessment and QAIP for 2022/23 are not yet complete but will be available for review after April 2023. The full QAIP will be presented to a meeting of the Audit Committee of the new North Yorkshire Council in 2023/24.
- 17 The Internal Audit Charter sets out how internal audit at the Council will be provided in accordance with the PSIAS. The Charter was last reviewed in July 2022 and no changes were proposed. The current Charter will continue to guide and govern the performance of Veritau's internal audit work for the Council up until 31 March 2023.

OPINION OF THE HEAD OF INTERNAL AUDIT

- 18 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating at the council is that it

² Reported to the Audit and Governance committee in January 2019.

³ PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

provides **Reasonable Assurance**. No reliance was placed on the work of other assurance providers in reaching this opinion.

- 19 In giving this opinion it is noted that weaknesses in the control environment were identified during a housing repairs and maintenance audit. The council has now made progress to improve the information held on the condition of its housing stock and has implemented a new housing system which should help improve the data quality and ability to manage the housing assets. Work is ongoing and is still needed to ensure a sound system of control is in place for housing repairs and maintenance but sufficient progress has been made that this is not a significant control weakness which needs to be considered for inclusion in the Annual Governance Statement.
- 20 The opinion given is based on work that has been undertaken directly by internal audit, and on the cumulative knowledge gained through our ongoing liaison with officers. However, in giving the opinion, we would note that preparations for local government reorganisation (LGR) have, over the last year, required a significant investment of time, effort and resources across the organisation. This has put strain on the Council's control environment and its business operations. The Council has had to operate during periods of uncertainty and substantial change all while maintaining service delivery and other key support functions. The unique circumstances and uncertainty brought about by the LGR transition have combined to create a very challenging operating environment. While the work of internal audit is directed to the areas that are considered most at risk, or to provide most value for the Council, it is not possible to conclude on the full extent of the impact of the LGR transition on the Council's operations.

APPENDIX A: INTERNAL AUDIT WORK IN 2022/23

Final reports issued

Audit	Reported to Committee	Opinion
Benefits	March 2023	Substantial Assurance
General Ledger	January 2023	Substantial Assurance
Contract Waivers	January 2023	Reasonable Assurance
Creditors	January 2023	Reasonable Assurance
Housing Rents	January 2023	Substantial Assurance
Council house repairs and maintenance	January 2023	Limited Assurance
Council tax & NNDR	October 2022	Substantial Assurance
Payroll	October 2022	Reasonable Assurance
Health and safety – homeworking	October 2022	Limited Assurance
Information security - homeworking	October 2022	Limited Assurance
ICT asset management	July 2022	Reasonable Assurance
Debtors	July 2022	Substantial Assurance
General ledger	July 2022	Substantial Assurance
Homes England	July 2022	No opinion given
Chairman’s Account	July 2022	No opinion given

Other work in 2022/23

Internal audit work has been undertaken in a range of other areas during the year, including those listed below.

- Certification of the Local Authority Test and Trace Contain Outbreak Management Fund Grant.
- Certification of the Local Authority Test and Trace Support Payment Scheme Grant.
- Ongoing review of key documentation and meeting minutes to help inform future work and provide insight for the annual opinion.
- Regular discussion with management, including ongoing discussions linked to local government reorganisation and in respect of the financial based audits, to help ensure sufficient coverage for the annual opinion.
- Involvement in a number of the local government reorganisation workstreams to help develop and understand new arrangements and share knowledge with management and officers.

APPENDIX B: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
Benefits	Substantial Assurance	The audit reviewed systems for assessing and paying new claims, processing changes to existing claims and the management of overpayments, recovery and write offs.	March 2023	<p>It was found that systems were working well. Controls relating to assessing and processing claims were operating effectively. Appropriate recovery action was being taken to address overpayments.</p> <p>The one issue found related to writing off unrecoverable debt, with no write off exercise having been completed in 2022/23.</p>	All unrecoverable debt will be written off prior to LGR vesting day.

APPENDIX C: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

Audit opinions	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
Substantial assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

*There are circumstances when it is not appropriate to give an opinion/assurance level on completed work, for example on project and other support, consultancy, grant certification and follow up work. When '**no opinion**' is our conclusion this is not to be confused with a no assurance opinion.

Priorities for actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.