

Governance, Risk and Audit Committee

Report Title	Head of Internal Audit's Annual Opinion Report 2023-24		
Are there background papers?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
Exempt	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
Reason for Exemption?			
Decision for Full Council?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
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Are there Non Electronic Appendices?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
List of Background Papers (if applicable)			

Head of Internal Audit's Annual Opinion Report 2023-24

- Summary:** This report concludes on the Internal Audit Activity undertaken during 2023/24, it provides an annual opinion concerning the organisation's framework of governance, risk management and control and concludes on the effectiveness of internal audit and provides key information for the Annual Governance Statement.
- Conclusions:** The Head of Internal Audit is able to give a reasonable / limited opinion on the framework of governance, risk management and control overall at North Norfolk District Council. Improvement in the control environment is needed.
- Recommendation:** That the Committee is requested to: -
- Receive and consider the contents of the Annual Opinion Report of the Head of Internal Audit.
 - Note that a reasonable / limited audit opinion has been given in relation to the framework of governance, risk management and control for the year ended 31 March 2024.
 - Note that the opinions expressed together with significant matters arising from internal audit work and contained within this report should be given due consideration when developing and reviewing the Council's Annual Governance Statement for 2023/24.
 - Note the outcomes of the Internal Audit's performance measures and the Quality Assurance and Improvement Programme (QAIP).

Cabinet member(s):

All

Contact Officer, telephone number,
and e-mail:

Ward(s) affected:

All

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1. Background

- 1.1 The Head of Internal Audit should provide an annual report, detailing its opinion on the framework of governance, risk management and control, to those charged with governance to support the Council's Annual Governance Statement (AGS).
- 1.2 This report should include the following: -
- An opinion on the overall adequacy and effectiveness of the Council's governance, risk management and internal control environment;
 - Disclose any qualifications to that opinion, together with the reasons for the qualification;

Governance, Risk and Audit Committee

- Detail a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- Any control weakness considered by the Head of Internal Audit to be relevant to the preparation of the AGS;
- A summary of the work undertaken during the year to support the opinion, including any reliance placed on the work of other assurance bodies;
- An overall summary of the performance of the Internal Audit Service against its performance indicators; and
- The results of the internal audit quality assurance programme, including details of compliance with Internal Audit Standards.

1.3 The purpose of this report is to satisfy this requirement.

2. Overall Position

2.1 The attached report contains the annual opinion of the Head of Internal Audit and the outcomes of Internal Audit performance measures and QAIP..

3. Conclusion

3.1 Having considered the audit work for 2023/24 for the Council, the Head of Internal Audit is able to provide **Reasonable / Limited Assurance** in relation to the framework of risk management, governance, and internal control. The opinion reflects the potential direction of travel in the control environment at the Council based on the information outlined in the attached report; therefore, improvement in the control environment needs to be demonstrated over the next audit year.

3.2 The overall performance status for the Contractor performing internal audit for the Council is '**amber**'. Action to improve performance is detailed in the attached report.

3.3 Regarding the QAIP, the service is compliant with internal audit standards as per the external quality assessment in October 2022, and is reviewing compliance with the new Global Internal audit Standards which come into effect on 1 January 2025.

4. Recommendations

1) That the Committee is requested to receive and note:

- Receive and consider the contents of the Annual Opinion Report of the Head of Internal Audit.
- Note that a reasonable / limited audit opinion has been given in relation to the framework of governance, risk management and control for the year ended 31 March 2024.
- Note that the opinions expressed together with significant matters arising from internal audit work and contained within this report should be given due consideration when developing and reviewing the Council's Annual Governance Statement for 2023/24.
- Note the outcomes of the Internal Audit's performance measures and the Quality Assurance and Improvement Programme (QAIP).

Appendices attached to this report:

Appendix A – Annual Opinion Report 2023/24

EASTERN INTERNAL AUDIT SERVICES



NORTH NORFOLK DISTRICT COUNCIL

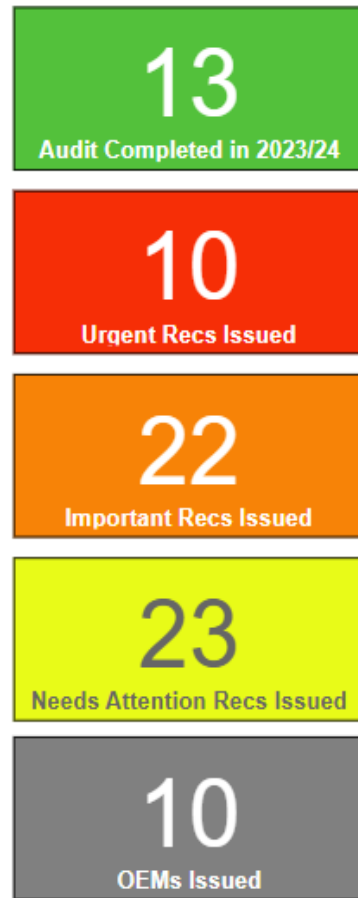
Internal Audit Annual Opinion & Report 2023/24

Head of Internal Audit: Teresa Sharman

Contents

	Page
Summary: Internal Audit Work 2023/24	1
Executive Summary:	
Purpose	2
Background	2
Scope of Responsibility	3
Head of Internal Audit Annual Opinion Statement	3
Audit Outcomes	8
Performance Measures Outcomes:	
Internal Audit PM Outcomes	10
KPIs in more detail	11
Actions to Improve	12
Quality Assurance and Improvement Programme (QAIP):	
QAIP	14
Internal Assessments	14
External Assessments	15
Appendix 1 - Summary of Audit Work 2023/24	16
Appendix 2 - Summary of Audit Opinions	18

Summary: Internal Audit Work 2023/24



HOIA opinion – Reasonable / Limited
10 positive opinions of which 1 was 'substantial'
3 'limited' opinions

Executive Summary

Purpose

The Head of Internal Audit should provide an annual report, detailing its opinion on the framework of governance, risk management and control, to those charged with governance to support the Council's Annual Governance Statement (AGS).

This report should include the following: -

- An opinion on the overall adequacy and effectiveness of the Council's governance, risk management and internal control environment;
- Disclose any qualifications to that opinion, together with the reasons for the qualification;
- Detail a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- Any control weakness considered by the Head of Internal Audit to be relevant to the preparation of the AGS;
- A summary of the work undertaken during the year to support the opinion, including any reliance placed on the work of other assurance bodies;
- An overall summary of the performance of the Internal Audit Service against its performance indicators; and
- The results of the internal audit quality assurance programme, including details of compliance with Internal Audit Standards.

The purpose of this report is to satisfy this requirement and Members are asked to note its content.

Background

The Internal Audit Service for the Council is provided by the Consortium, Eastern Internal Audit Services, hosted by South Norfolk Council, which utilises the services of a contractor, TIAA Ltd.

All audit work is completed in accordance with the International Professional Practices Framework of the Chartered Institute of Internal Auditors, directed by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note 2019.

Internal audit provides an independent and objective opinion on the Council's internal controls by evaluation their effectiveness and operation in practice.

Scope of Responsibility

The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions, and which includes arrangements for the management of risk.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

This opinion statement is provided for the use of the Council in support of its AGS for the year ended 31 March 2024.

Head of Internal Audit Annual Opinion Statement

Opinion

In summary: -

I have considered the audit work for 2023/24 for the Council and am able to provide **Reasonable / Limited Assurance** in relation to the framework of risk management, governance, and internal control. My split opinion reflects the potential direction of travel in the control environment at the Council based on the information

outlined in this report; therefore, improvement in the control environment needs to be demonstrated over the next audit year.

In detail: -

My opinion is based on the audit work completed in 2023/24, and the relative materiality of the issues arising from audit work as well as management's progress in addressing any control weaknesses identified. There are some areas which require the introduction or improvement of internal controls to ensure the achievement of the Council's objectives where limited assurance was provided and urgent recommendations made.

In arriving at my overall annual opinion: -

- Reliance has not been placed on any third-party assurances.
- I have considered management's progress with addressing outstanding recommendations from previous years as detailed below.
- I have considered the outcomes of all audits completed in 2023/24, particularly, the three 'limited' assurance opinions as detailed below.
- I have considered the outcomes of the audit work completed on the High Street Heritage Action Zone Building Improvement Grant funding administered by the Council in relation to the building work at North Walsham Phoenix Group's Youth and Community Space at the former Barclays Bank. This was an additional item to the Internal Audit Plan. This works outlines that there are control weaknesses in the administration and oversight of grants awarded. An executive summary of our findings will be presented to the Committee at its next meeting,

Limited opinions

Three limited assurance opinions have been issued in 2023/24 and key control weaknesses were identified as detailed below. Any control weaknesses represent unresolved risks and should be considered for inclusion within the Council's Annual Governance Statement where the recommendations to address these remain outstanding at year end.

Civil Contingencies and Business Continuity (Final report issued May 2024)

Details of the four urgent recommendations are detailed below: -

- The Corporate Business Continuity Plan has been updated and is due for Corporate Leadership Team approval at the end of May 2024.
- Not all service areas have a Business Continuity Plan in place. At the time of the audit, five out of 15 critical activities did not have one in place.
- A testing timetable for the Corporate Business Continuity Plan is not in place although the Plan has been tested because of incidents arising rather than planned testing activities. The results of service areas' tests are not recorded.
- Business Impact Analyses had not been completed in all services areas. At the time of the audit, only 18 out of 28 service areas had completed one.

This all compromises the ability of the Council to recover and continue its services in the event of an adverse event.

The due dates for management action are all to be completed by the end of July 2024.

Land Charges (Final Report issued October 2023)

- The two urgent recommendations raised have been addressed.
- Two important recommendations remain outstanding in relation to data cleansing of the system used for land register charges and reconciliations between the land register system and the General Ledger.

This all impacts the integrity of the data.

A revised due date has been agreed for the former recommendation detailed above to the end of June 2024 but not the latter which was due for completion at the end of March.

Post-Implementation Finance System Review (Final Report issued November 2023)

- The three urgent recommendations raised are due for completion by November 2024 and relate to ensuring all key project milestone decisions are formally documented, appropriate project controls are put in place commensurate with the size and complexity of the project, and a system specification, project initiation document and business case are developed and approved at the beginning of the

project. It is likely that these recommendations will be closed as there cannot be applied to the finance system now but can be for any future projects.

- A formal post implementation review has still to be completed and should include amongst other things a comparison of planned and actual benefits, an analysis of what worked well and what could have worked better and officer feedback.
- A review of the outstanding functionality not yet implemented with a view to making decisions about which of these remain a priority and which are not, supported by an implementation plan and roadmap.

This may impact the ability of the Council to work as effectively as it could with the technology it has brought and whether they have realised the benefits of the new system.

The due dates for all the recommendations are November 2024.

Third party assurances

No third-party assurances have been relied upon.

Outstanding recommendations

In relation to the follow up of management actions, to ensure that they have been effectively implemented, the position at year end 2023/24 is that 41 recommendations, crossing the years 2019/20 to 2023/24, are outstanding as the table below details which has been accounted for in my overall annual opinion: -

Audit Year	No. Outstanding	No. of Urgent	No. of Important	No. of Needs Attention
2019/20	1	0	1	0
2021/22	4	0	4	0
2022/23	16	1	6	9
2023/24	20	0	12	8

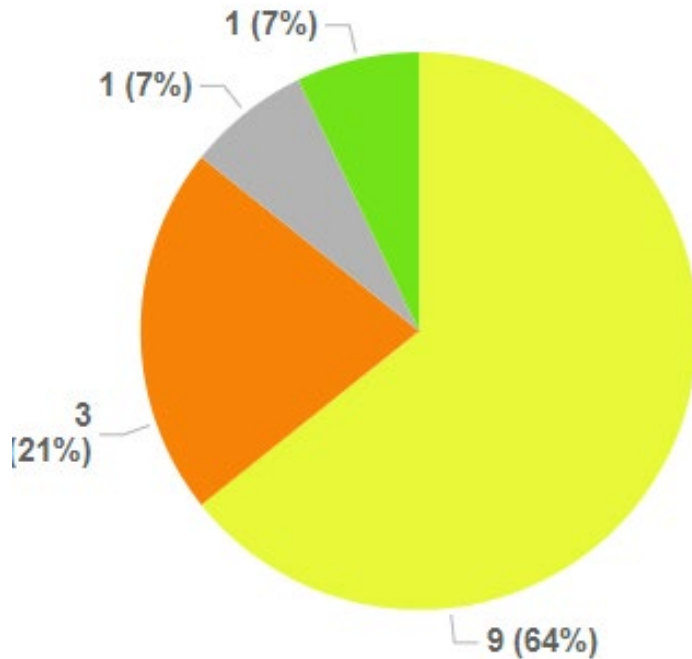
The one urgent recommendation relates to treasury management from the 2022/23 Key Controls and Assurance audit, which was reiterated in the same audit for 2023/24, and will be addressed in its entirety when the new Chief Technical Accountant arrives to this vacant position in July 2024. This recommendation relates to reviewing and authorising short-term investments and the reconciliations between the treasury management investment records and the General Ledger. In the meantime, the Deputy S151 Officer of the S151 Officer have been reviewing the reconciliations.

The important recommendations relate to several audits from financial and service areas. The one from 2019/20 relates to a recommendation from the Planning Applications and Development Management audit in relation to a review of response time targets and fees for pre-application work. A new 'Pre-Application Service' is now being designed, which will include a new fee regime, with consultation on the initial proposal in May 2024. The proposal will be taken to the Council in July 2024 and the new system introduced from 1st September 2024. Therefore, this recommendation should be closed off over the summer.

Please refer to the separate Internal Audit Progress and Follow Up report June 2024, which shows the details of the progress made to date in relation to the implementation of agreed recommendations, and which also provides an update from management regarding all outstanding recommendations.

Audit Outcomes

Below is the spread of audit opinions across audit work completed in 2023/24, One of the 13 audits were advisory work. For a detailed summary of audit work completed, please refer to Appendix 1.



Note: Thirteen audits were completed in 2023/24 but one audit covered two areas and an opinion was given for both areas. Therefore, there were 14 opinions given in the year.

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed, and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed, and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed, and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.
Position Statement	Advisory work.

Audit work in 2023/24 covered corporate areas, service areas, governance, I.T., finance systems, housing benefits, council tax billing and business rates and enforcement.

Appendix 2 shows the assurances provided over previous and current audit years to provide an overall picture of the control environment.

Performance Measures Outcomes

Internal Audit PM Outcomes

Detailed below are the outcomes of Internal Audit's performance measures which relate to the performance of the contractor delivering internal audits for the Council. With only six PIs met, the overall performance status is 'Amber'. Other than KPI 1 which is measured annually and KPIs 6 and 8 which are measured continuously, all KPIs are measured quarterly.

Overall Performance Status		Amber
KPI Ref.	Description	Outcome
Senior Management		
KPI 1	S151, S17 Satisfaction, annually minimum good.	Below Expected
Internal Audit Process		
KPI 2	APM issued minimum 20 working days before agreed start date of each review – 90% quarterly.	X
KPI 3	Quarterly draft reports issued within 10 working days of the end of the quarter – 95% quarterly.	X
KPI 4	Quarterly final reports issued 20 working days of the end of the quarter – 95% quarterly	X
KPI 5	Quarterly performance pack reported to the Contract Manager within 15 working days of the end of the quarter	✓
KPI 6	Respond to the Contract Manager within 3 working days where unsatisfactory feedback has been received.	✓
KPI 7	PSIAS compliance – Deep dive review of files indicates good quality evidence saved on file – 100%. Four files per quarter	Not completed

Clients		
KPI 8	Average feedback scores from key clients, quarterly minimum average.	✓
Innovation and Capabilities		
KPI 9	Percentage of recommendations accepted by management 90% overall.	✓
KPI 10	Percentage of qualified / experienced staff working on the contract each quarter – 60%	✓
KPI 11	Number of training hours per member of staff completed each quarter – minimum 1 day per quarter.	✓

KPIs in more detail

Operational KPIs

The table below shows the outcomes of the operational KPIs 2, 3, 4 and 8 in more detail: -

KPI 2 (Issue of APMs)	KPI 3 (Issue of Drafts)
1 out of 13 on time	5 out of 13 on time
KPI 8 (Feedback)	KPI 4 (Issue of Finals)
2 out of 13 returned	3 out of 13 on time

For KPI 8, the average feedback score from the two returned surveys was 5, good. The range for the possible scores is, 6 - excellent and 1 – poor.

KPI 7 – PSIAS compliance - deep dive review of files

Regarding KPI 7, compliance with PSIAS deep dive review of files, this was not completed by my predecessor in quarters 1 and 2 because insufficient audits had been completed across Consortium clients. This continued to be the case with quarter 4 audits continuing into the quarter 1 of the new audit year, and due to the Head of

Internal Audit only being in post for part of quarter 3 and quarter 4 only, it was decided to not complete any deep dive reviews in 2023/24. However, the Head of Internal Audit reviews and approves the issue of all APMs, draft and final reports and views all completed work programmes. As a result, more detail in audit scopes has been requested in APMs, changes to the draft and final reports have been agreed and testing completed has been questioned along the way.

KPI 1 S151 satisfaction

The S151s' satisfaction, KPI 1, was also deemed to be below that expected when reviewed as a collective at the April 2024 Consortium meeting. These together make the overall performance status 'amber' for 2023/24.

Actions to Improve

As the tables above highlight, the Contractor has not met our targets relating to issuing Audit Planning Memorandums (APMs) and draft and final reports within the set timescales.

Reasons for poor performance

Performance in 2023/24 was affected by the carried forward audit work from the previous audit year as well as delays in audits starting and progressing in year, which has been due to many reasons such as contractor and Council officer sickness, lack of responses from Council officers to communication from the Contractor, lack of escalation by the Contractor to the Head of Internal Audit or S151s when responses are not received and audits are delayed; therefore, both Council officers and the Contractor have been responsible for this situation.

As a result, the 10% quality payment, which is withheld until the end of the year annually, was adjusted accordingly and not paid in full.

Action to address poor performance

The following action is being taken or considered to improve performance: -

- To prevent a delay to the delivery of quarter 1 audits in 2024/25, the Contractor has appointed another team to complete these audits.

- A Protocol, 'a ways of working together' and expectations of Council officers and the Contractor has been outlined and issued to ensure that audits are completed as planned in 2024/25 without delay. This includes timescales for responding and escalation action.
- As the Contractor does not have exclusivity, consideration is being given to engaging with another contractor to complete some audits during 2024/25.
- The Contractor is appointing another Client Manager on the contract as one of the current managers is part time. This will help ensure that all audit work is progressed timely. In addition, more auditors are recruited.

Quality Assurance and Improvement Programme (QAIP)

QAIP

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) which must include both internal and external assessments. There are three requirements as follows: -

- Ongoing monitoring of the performance of the internal audit activity. This refers to the day-to-day supervision, review and measurement of internal audit activity that is built into policies and routine procedures. The day-to-day monitoring of audit engagement is completed by the Contractor and progress with audit work and plans are monitored by the EIAS through weekly operational and quarterly performance meetings with the Contractor, and by review and approval of audit outputs, as well as by an evaluation of the Contractor's performance against our suite of KPIs.
- Periodic self-assessments to assess conformance with the International Professional Practices Framework (IPPF) that includes the Definition of Internal Auditing, the Core Principles, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. A self-assessment is completed annually.
- External assessments of conformance to the IPPF once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

The results of the QAIP are reported to the Audit Committee each year as part of this annual report.

The Internal Audit Team within EIAS maintain a QAIP which covers internal and external assessments and was detailed within your Strategic and Annual Plan Report 2024/25 to 2026/27.

Internal Assessment

A checklist for conformance with the PSIAS and the CIPFA Local Government Application Note 2019 was completed for 2020/21 and is reviewed for continuing compliance annually. This is a self-assessment which evaluates conformance with the PSIAS.

This annual self-assessment has not been completed in 2023/24. This is because the Global Internal Audit Standards (GIAS) have been released and will become effective on 1 January 2025. Our focus is now on completing a self-assessment against these to identify any gaps in conformance so that these can be addressed, and a report will be provided to the Audit Committee during 2024/25 on our conformance. A CIPFA version for the Public Sector is expected during 2024.

(Note: the PSIAs are based on the mandatory elements of the IPPF).

External Assessment

An external quality assessment (EQA) evaluates conformance with the IPPF.

An EQA was carried out in October 2022 by the Chartered Institute of Internal Auditors (IIA). The Internal Audit Service received a 'generally conforms' result, with conformance in 60 out of 64 areas (two areas were not applicable, and two resulted in 'partially conforms').

Progress with actions

One area of partial conformance was highlighted in coordinating and maximising assurance. Within the Strategic and Annual Plans report for the audit year 2023/24 presented in March 2023, an Assurance Map was provided, outlining the then top risks, along with first, second and third lines of assurance. This was not repeated for the 2024/25 audit year. It has been proposed to complete detailed assurance maps for at least one of the Council's corporate risks.

The second area of partial conformance was raised to ensure that all EIAS clients receive an external quality assessment as it falls due on the five-year anniversary. This will be ensured at the five-year anniversary in 2027.

Summary of Internal Audit Work 2023/24

Appendix 1

Audit Area	Status	Opinion	Total	Urgent	Important	Needs Attention	OEMs
Freedom of Information	Final	Substantial	1	0	0	1	0
Complaints	Final	Reasonable	5	0	2	2	1
Accountancy Services	Final	Reasonable	6	0	2	4	0
Accounts Payable	Final	Reasonable	4	0	0	3	1
Accounts Receivable	Final	Reasonable	3	0	0	0	3
Income	Final	Reasonable	2	0	2	0	0
Procurement and Contract Management	Final	Reasonable	7	0	3	3	1
Key Controls and Assurance	Final	Reasonable	2	0	1	1	0
Housing Strategy, Homelessness and Housing Options	Final	Reasonable	2	0	2	0	0
Service Desk	Final	Reasonable	6	0	3	2	1
Civil Contingencies and Business Continuity	Final	Limited	7	5	2	0	0
Post-Implementation Finance System Review	Final	Limited	5	3	2	0	0
Land Charges	Final	Limited	15	2	3	7	3
Property Services - Operational	Final	Position Statement	0	N/a	N/a	N/a	N/a
Risk Management	Deferred	N/a	N/a	N/a	N/a	N/a	N/a
Coastal Management	Deferred	N/a	N/a	N/a	N/a	N/a	N/a

Grant Certifications	<p>The following grants were certified by EIAS during 2023/24: -</p> <ul style="list-style-type: none"> • Food Waste Collection Declaration P/e 2023/24 • Disabled Facilities Capital Grants P/e 2022/23
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For Your Information: -

Urgent – Priority 1	Fundamental control issue on which action to implement should be taken within 1 month.
Important - Priority 2	Control issue on which action to implement should be taken within 3 months.
Needs Attention – Priority 3	Control issue on which action to implement should be taken within 6 months.

(Note: OEMs are Operational - Effectiveness Matter)

Audit Opinions by Year

The following chart shows the opinions provided for audits over the last six years: -

