

Internal Audit Annual Report 2022/23

Audit and Governance Board

5 July 2023



Section One – Background

1.1 Introduction

In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit is required to provide an annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. This is achieved through delivering a risk-based plan of work (the Internal Audit Plan), which has been agreed with management and approved by the Audit and Governance Board.

The Standards require that the annual report provides:

- An opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment
- Details of any qualifications to that opinion, together with the reasons for the qualification
- A summary of the audit work from which the opinion is derived
- Details of any issues that the Head of Internal Audit considers particularly relevant to the preparation of the Annual Governance Statement
- A comparison of the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- A commentary on compliance with these standards and communicates the results of the internal audit quality assurance programme

1.2 Purpose of report

The purpose of this report is to satisfy the requirements of the PSIAS. It sets out how the Council's internal audit function has operated in accordance with the standards during the year. It also provides an annual internal audit opinion that can be used by the Council to inform its governance statement.

Section Two – Compliance with Professional Standards

2.1 Introduction

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

Conformance with the core principles within PSIAS helps to provide assurance over the way in which the Council's internal audit function is delivered. In turn, this provides assurance over the quality of work completed in support of the overall annual opinion.

Internal audit services are required to have an external quality assessment every five years. The Council's external assessment was last completed during 2017/18 and the overall conclusion was that the Council's internal audit arrangements substantially conform to the standards. There were no departures from these arrangements during 2022/23. Internal assessments against the standards are also undertaken periodically.

The Council's next external assessment against the standard has been delayed but will now be completed later this financial year as part of a peer review process being coordinated across the North West region. This will ensure that the assessment is undertaken by an appropriately qualified and independent assessment team.

2.2 Purpose, Authority, and Responsibility of Internal Audit (PSIAS standard 1000)

The purpose, authority and responsibility of the Council's internal audit activity is formally defined in an internal audit charter, which forms part of the Council's Constitution. The charter sets out Internal Audit's position within the Council, including the nature of the reporting relationship with the Board. It also provides authority to access records, personnel and physical properties relevant to the performance of audit engagements, and defines the scope of internal audit activities.

The internal audit charter is subject to annual review and is presented to the Board for information with this annual report (see attached Appendix A).

2.3 Limitations placed on the independence of internal audit (PSIAS standard 1100)

During 2022/23, there have been no matters arising which have impacted on the independence of the Internal Audit service and there have been no inappropriate scope or resource limitations on internal audit work.

Section Two – Compliance with Professional Standards

As previously reported to the Board, the Head of Internal Audit also has managerial responsibility for a number of other finance functions. Arrangements to safeguard the independence of Internal Audit are however well-established and have previously been reported to and agreed by the Board. Details of these arrangements are presented again in Appendix B to this report. These arrangements have operated effectively throughout the year.

No audits were completed during the year that included coverage of areas for which the Head of Internal Audit also has operational responsibility.

2.4 Proficiency and Due Professional Care (PSIAS standard 1200)

All audit engagements carried out during the year were completed with appropriate proficiency and due professional care. Work was allocated to auditors on the basis of the knowledge, skills and competencies needed to perform individual specific assignments.

2.5 Quality Assurance and Improvement Programme (PSIAS standard 1300)

The development and maintenance of a Quality Assurance and Improvement Programme (QAIP) is a requirement within PSIAS.

The purpose of the QAIP is to ensure that the Internal Audit service operates in accordance with PSIAS and the Local Government Application Note (LGAN) and maintains consistently high standards.

Key elements of the quality assurance arrangements in operation during 2022/23 are described below:

- The Internal Audit team is made up of appropriately trained and qualified staff with significant local government experience. The majority of the team are members of professional institutes and all members of the team are required to comply with ethical rules, technical standards and professional practice laid down by those bodies.
- Internal audit work is based upon a detailed risk-based audit plan, which is agreed in consultation with management and is approved by the Audit and Governance Board.
- Internal Audit employs an audit methodology that is in accordance with professional standards.
- Terms of Reference are developed with key stakeholders for each audit assignment, which set out the agreed coverage.
- Daily team meetings take place to discuss progress and issues relating to the completion of audit engagements.
- Robust management review is undertaken of all audit files and reports prior to issue.
- There is a system of regular reporting of progress against the plan to the Audit and Governance Board.
- All Internal Audit staff complete annual declarations confirming their compliance with the Code of Ethics.

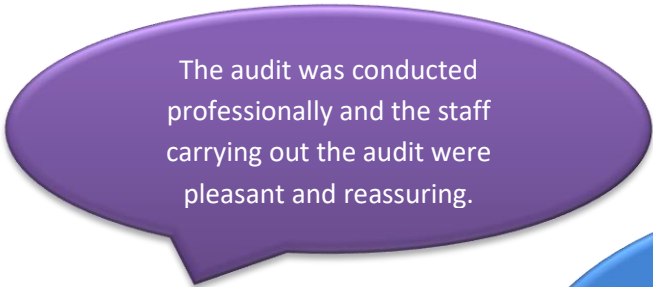
Section Two – Compliance with Professional Standards

- There is a commitment to the continuing professional development of all Internal Audit staff through a range of learning and development opportunities. These include professional training, on the job training, e-learning, webinars, and attendance at relevant training events and workshops.
- Structured support, mentoring, and supervision was provided to the three members of staff who joined the team during the year. This has assisted significantly with their induction and development. It has also helped to ensure that work is undertaken in accordance with professional standards.


Internal Audit invites feedback on the quality of service provided by issuing a questionnaire at the end of each audit. This is an important process in terms of identifying how the audit was received by the service area. It is also a valuable means of identifying aspects of the audit process that can be improved.

The feedback received from the surveys returned in the year was very positive and there were no comments in the responses received that highlighted any particular areas for development.

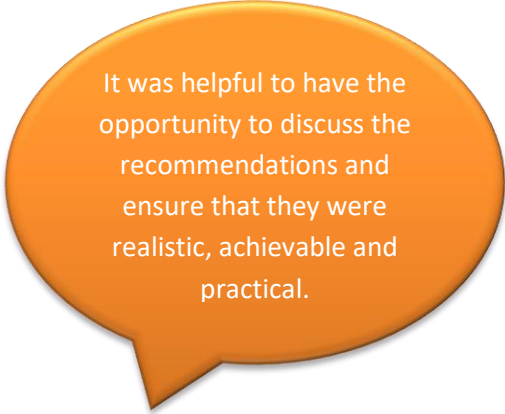
A sample of comments received in response to the questionnaires issued during 2022/23 is included below:



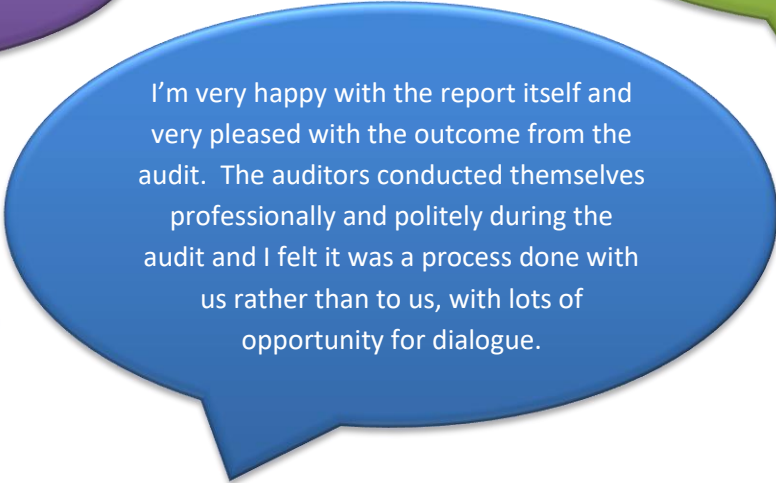
The audit was conducted professionally and the staff carrying out the audit were pleasant and reassuring.




The auditor involved myself and those involved in the audit at all stages, keeping us up to date.



It was helpful to have the opportunity to discuss the recommendations and ensure that they were realistic, achievable and practical.



I'm very happy with the report itself and very pleased with the outcome from the audit. The auditors conducted themselves professionally and politely during the audit and I felt it was a process done with us rather than to us, with lots of opportunity for dialogue.



I'm happy with the report and very pleased with the outcome from the audit. Thank you also for the way in which the audit was conducted.

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Key actions for 2023/24 to further develop the team's quality assurance arrangements are as follows:

- The five-yearly external review of Internal Audit will be completed and the results reported to the Audit and Governance Board.
- Formal staff appraisals will be reintroduced to help identify training and development needs for individual team members.
- The Internal Audit Manual is to be updated. The purpose of this manual is to provide audit staff with a source of reference for general audit procedures and methodology.

2.6 Managing the Internal Audit Activity (PSIAS standard 2000)

In 2022/23 Internal Audit worked to an annual risk-based audit plan that was developed following consultation with senior management and the Audit and Governance Board. The plan took account of the Council's strategies, key business objectives, associated risks and risk management processes. The 2022/23 Audit Plan was formally approved by the Audit and Governance Board in March 2022.

Regular reports are presented to senior management and the Audit and Governance Board on Internal Audit team's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards. The regular progress reports presented to the Board throughout 2022/23 highlighted any significant risk and control issues, fraud risks, governance issues and other matters that require the attention of senior management and/or the Board.

2.7 Nature of Work (PSIAS standard 2100)

Internal audit employs a systematic, disciplined, and risk-based approach to its work, which contributes to the ongoing maintenance and development of the Council's governance, risk management, and control processes. This is delivered by the identification of issues and performance improvement opportunities when completing audit assignments, contributions to internal working groups, and the ongoing provision of advice.

2.8 Engagement Planning (PSIAS standard 2200)

The Internal Audit team develops and documents a plan for each engagement (other than grant claim audits) in a terms of reference. This is produced with the input of management and it sets out the engagement's objectives, scope, timing, and resource allocations. All assignments take account of the Council's strategies, objectives, and risks relevant to the engagement. Each assignment also takes account of value for money considerations that are relevant to the area audited.

2.9 Performing the Engagement (PSIAS standard 2300)

Robust planning, monitoring and review arrangements operated throughout 2022/23 to ensure that an appropriate level of work is undertaken in each engagement in order to achieve the engagement's objectives. Procedures include management sign off of each terms of reference, daily updates on progress with assignments, detailed file review, and management review of draft audit reports.

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All audit working papers are stored in an audit management database, which provides full evidence of management review. Working papers are completed in sufficient detail to substantiate any issues that are highlighted in audit reports.




2.10 Communicating Results (PSIAS standard 2400)

Results of all audit engagements are communicated as appropriate. The Council's Chief Executive and Operational Director – Finance receive full copies of all audit reports. The relevant Executive Director, Operational Director, Divisional Manager and other managers, as appropriate, also receive full copies of reports.

The Audit and Governance Board receives summary copies of each report completed in the regular progress reports to the Board. Significant issues identified through audit work are also highlighted to the Board.

In each audit report, an overall assurance level is provided on the area audited. This is based on the information obtained in the course of the audit and represents an assessment of the effectiveness of the risk management, control and governance processes in the area audited.

The range of assurance levels in internal audit reports is set out in the following table:

 Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
 Adequate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
 Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

An overall annual internal audit opinion is also delivered. This is largely informed by the work completed by Internal Audit during the year and is used by the Council to inform its Annual Governance Statement. The annual internal audit opinion provides a conclusion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control and forms part of this annual report (see section 3).

2.11 Monitoring Progress (PSIAS standard 2500)

Internal Audit has established a follow-up process to monitor and ensure that management actions have been implemented effectively or that senior management has accepted the risk of not taking action. A full follow up audit is completed for all audits that do not receive

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a 'substantial assurance' opinion. The results of the 'follow-up' audits are reported to the Audit and Governance Board through the regular system of progress reporting.

2.12 Communicating the Acceptance of Risks (PSIAS standard 2600)

In the event that management accepts a level of risk that Internal Audit considers may be unacceptable to the Council, the issue would be raised appropriately with senior management and brought to the attention of the Audit and Governance Board if the matter is not resolved satisfactorily. However, no such issues arose in the course of 2022/23.

Section Three – Annual Audit Opinion

3.1 Basis of Opinion

The annual opinion is based on the following sources of information:

- Review of the risk management arrangements within specific business areas
- The work of Internal Audit in reviewing the Council's governance arrangements and annual review of the Constitution
- Assessment of the range of audit assurance opinions arising from audit assignments that have been reported to the Audit and Governance Board throughout the year. This assessment has taken account of the relative materiality of each area audited
- Assessment of management's responses to Internal Audit's recommendations and the progress made in addressing risks and issues identified through internal audit work
- Cumulative organisational knowledge through audit work, advice and liaison with the Council's senior management

3.2 Coverage and output

Internal audit delivered 812 days of audit work during 2022/23 against the Audit Plan which budgeted for 1,025 days. This represents completion of just over 79% of the planned audit days for the year.

As reported to the Board throughout 2022/23, numerous changes to planned coverage were required as a result of the staffing vacancies experienced during the year. This resulted in some planned audits being deferred to 2023/24. A revised Audit Plan for 2022/23 was consequently approved by the Board at its meeting on 23 November 2022.

Section four of this report provides a list of the audit reports issued in the year, a summary of the audit assurance opinions provided, and the dates that the reports were presented to the Audit and Governance Board. The work completed is considered sufficient and wide-ranging enough to support the annual audit opinion.

Comparative information on audit coverage and outcomes is provided in the following table for the four preceding financial years.

Financial year	No. of audit days	Substantial Assurance	Adequate Assurance	Limited Assurance	Total
2022/23	812	43	3	1	47
2021/22	1,063	48	7	2	57
2020/21	890	46	5	1	52
2019/20	684	36	6	0	42
2018/19	883	43	7	1	51

Section Three – Annual Audit Opinion

3.3 Qualifications to the Opinion

The Internal Audit Annual Opinion helps to inform the content of the Annual Governance Statement. However, it should be noted that in providing an opinion assurance can never be absolute.

Internal Audit cannot review all the risks that the Council faces and can only provide reasonable assurance that there are no major weaknesses in the Council's risk management, control and governance processes. The opinion is largely informed by the audit work completed. Weaknesses may exist in areas that did not form part of the programme of audit work, or if specific areas were excluded from the scope of individual audit assignments.

Ultimately, senior management and elected members are responsible for ensuring an effective system of internal control. It is however important to note that Internal Audit continues to enjoy a positive working relationship with senior management across the Council. Management has been supportive in terms of the work of Internal Audit and has responded positively to any recommendations made during the course of the year.

3.4 Follow-up audit assignments

A critical part of an organisation's internal control, governance and risk management framework is management's responsiveness to addressing risks and issues identified through the work of Internal Audit. Timely and full implementation of agreed actions helps to demonstrate management's commitment to maintaining effective systems of control.

Two follow-up audits were completed during the year and these are listed in section five of this report. The follow-up process involves Internal Audit carrying out further work to determine the progress that management has made in implementing previously agreed actions. A follow-up audit report is then issued summarising the results of this work. Each follow-up audit provides a revised assurance opinion which is informed by the extent to which the risk management, control and governance processes of the area audited have improved since the original audit.

3.5 Issues relevant to the Annual Governance Statement

Where issues have been identified through internal audit work, management has responded positively. There are therefore no outstanding issues from the audit work completed in the year that have implications for the Annual Governance Statement.

The ongoing funding challenges faced by the Council are widely understood and action is being taken through the Transformation Programme to address the issue and to deliver a way of working that promotes independence, is affordable, and sustainable. It should be noted that there is no evidence from the internal audit work undertaken during the year that the Council's financial challenges have as yet impacted negatively on its risk management, control and governance arrangements.

It is also acknowledged that the Council continues to respond to the Ofsted Improvement Notice issued on 13 January 2022 following the review of children's social care services. The Council recognises the significance of this issue and details of how it is being addressed are included in the Annual Governance Statement.

Section Three – Annual Audit Opinion

3.6 Overall opinion (PSIAS standard 2450)

The Council continues to maintain adequate and effective risk management, control and governance processes. This opinion is based on the internal audit work performed during 2022/23 and from cumulative knowledge and experience of the organisation.

There has been positive engagement with management in agreeing actions where audit work has identified weaknesses in the design or application of controls. Action plans are in place to address all the issues identified through the work of internal audit.

The results of the follow-up audits completed provides assurance that the actions agreed in response to audit reports are implemented.

Section Four – Internal Audit work completed in 2022/23

	Presented to Audit & Governance Board	Assignment	Assurance Level
1.	28 September 2022	Positive Behaviour Support Service	●
2.	28 September 2022	Halebank CE Primary School	●
3.	28 September 2022	Contain Outbreak Management Fund	●
4.	28 September 2022	Additional Drug Treatment Crime and Harm Reduction Activity	●
5.	28 September 2022	East Runcorn Connectivity - 2022/23 Q1	●
6.	28 September 2022	Runcorn Busway Active Travel Corridor - 2022/23 Q1	●
7.	28 September 2022	Test and Trace Support Payment Scheme	●
8.	28 September 2022	Household Support Fund - 2022/23 Q1	●
9.	28 September 2022	Supporting Families (July 2022 Grant Claim)	●
10.	28 September 2022	LCR - Brownfield Housing – Foundry Lane - 2022/23 Q1	●
11.	28 September 2022	BACS Access Controls	●
12.	28 September 2022	Highways Term Maintenance Contract – Interim Report	●
13.	23 November 2022	Bankline Payments	●
14.	23 November 2022	East Runcorn Connectivity Grant Claim - Q2 2022/23	●
15.	23 November 2022	Disabled Facilities Grant Claim - 2021/22	●
16.	23 November 2022	Town Centre Fund Grant Claim – Halton Lea - Q2 2022/23	●
17.	23 November 2022	Runcorn Busway Active Travel Corridor Grant Claim - Q2 2022/23	●
18.	23 November 2022	Runcorn Station Quarter (Phase Two) Grant Claim - Q2 2022/23	●
19.	23 November 2022	Household Support Fund - April to September 2022/23	●
20.	23 November 2022	LCR - Brownfield Housing – Foundry Lane - 2022/23 Q2	●
21.	22 March 2023	Payments to Early Years Providers	●
22.	22 March 2023	Bank Reconciliations	●
23.	22 March 2023	Pewithall Primary School	●
24.	22 March 2023	East Runcorn Connectivity Grant Claim - 2022/23 Q3	●
25.	22 March 2023	Supporting Families (December 2022 Grant Claim)	●

Section Four – Internal Audit work completed in 2022/23

	Presented to Audit & Governance Board	Assignment	Assurance Level
26.	22 March 2023	City Region Sustainable Transport - Settlement Grant Claim 2022/23	●
27.	22 March 2023	Runcorn Busway Active Travel Corridor - 2022/23 Q3	●
28.	22 March 2023	Household Support Fund - 1 October to 31 December 2022	●
29.	22 March 2023	LCR - Brownfield Housing – Foundry Lane – 2022/23 Q3	●
30.	22 March 2023	Skills Capital Investment Fund	●
31.	5 July 2023	Weston Primary School	●
32.	5 July 2023	Supporting Families (March 2023 Grant Claim)	●
33.	5 July 2023	Woodside Primary School	●
34.	5 July 2023	St Clement's Catholic Primary School	●
35.	5 July 2023	Managing the Risk of Fraud and Corruption	●
36.	5 July 2023	Highways Term Maintenance – Tender Evaluation & Contract Award	●
37.	5 July 2023	Biodiversity Net Gain - 2022/23	●
38.	5 July 2023	Runcorn Busway Active Travel Corridor - Q4 2022/23	●
39.	5 July 2023	East Runcorn Connectivity - Q4 2022/23	●
40.	5 July 2023	Household Support Fund (1 October 22 - 31 March 2023)	●
41.	5 July 2023	LCR - Brownfield Housing – Foundry Lane – 2022/23 Q4	●
42.	5 July 2023	Family Hubs and Start for Life Grant	●
43.	5 July 2023	UK Shared Prosperity Fund - Q4 2022/23	●
44.	5 July 2023	Local Cycling and Walking Infrastructure Plan - Q4 2022/23	●
45.	5 July 2023	Key Route Network – Levelling Up	●
46.	5 July 2023	City Region Sustainable Travel Settlement - Q4 2022/23	●
47.	5 July 2023	Adult Safeguarding	●

Section Five – Follow-up work completed in 2022/23

In order for the Council to derive maximum benefit from the work of Internal Audit, agreed actions should be implemented. In accordance with the Internal Audit Plan, we follow up all audits that do not receive a 'substantial' audit opinion. This process involves carrying out work to determine the progress that management has made in implementing actions previously agreed. A follow-up audit report is then issued summarising the results of this work.

Each follow-up audit provides a revised overall assurance opinion, which is based on the extent to which the risks identified in the original audit have been addressed. The following table summarises the results of the follow-up assignments completed during 2022/23.

	Presented to Audit & Governance Board	Assignment	Assurance Level
1.	23 November 2022	Community Meals Service	●
2.	22 March 2023	Day care provision for children	●