

Bath & North East Somerset Council

MEETING:	Corporate Audit Committee	
MEETING DATE:	1st May 2024	AGENDA ITEM NUMBER
TITLE:	Annual Report of the Chief Audit Executive 2023/24	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 - Audit Reviews Position Statement (2023/24)		

1 THE ISSUE

1.1 The Accounts and Audit Regulations 2015 require the Council to maintain an adequate and effective internal audit service and to 'conduct a review of the effectiveness of the system of internal control'. The UK Public Sector Internal Audit Standards requires the Chief Audit Executive (Head of Audit & Assurance) to deliver an annual internal audit opinion and report that can be used by the Council to inform its Annual Governance Statement.

1.2 This is the Annual Report (2023/24) of the Chief Audit Executive (Internal Audit service) which includes a summary of Internal Audit performance, key findings / issues, as well as the formal opinion on the Council's internal control environment (framework of governance, risk management and internal control).

1.3 The Annual Report incorporates:

- a) The annual opinion on the overall adequacy and effectiveness of the Council's governance, risk, and control framework.
- b) A summary of the work that supports the annual opinion.
- c) A statement on conformance with the Public Sector Internal Audit Standards and the results of the Internal Audit Quality Assurance & Improvement Programme.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to:

- a) consider and support the conclusion that the Council's system of internal control is effective.
- b) confirm that the opinion of the Chief Audit Executive, based on his assessment of effectiveness, can be relied upon as a key source of evidence in the Annual Governance Statement 2023/24.

3 THE REPORT

3.1 The Annual Internal Audit Plan for 2023/24 was presented to the Corporate Audit Committee on the 15th March 2023. The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the Council's internal control environment.

3.2 An Audit Reviews Position Statement 2023/24 (Appendix 1) provides an up-to-date position of the planned internal audit reviews as at 31st March 2024.

3.3 The Committee last received formal updates on delivery against the plan on the 1st November 2023 and at its last meeting on 7th February 2024 as part of the report consulting the Committee on the Internal Audit Plan for 2024/25.

3.4 HEADLINES FOR FINANCIAL YEAR 2023/24

The summary position as of 31st March was as follows:

- 26 Internal Audit Reviews started during the financial year.
- 15 were completed and issued as Final version reports. Of the 15, 11 were assigned as Level 3 'Reasonable Assurance' and 4 were Level 4 'Substantial Assurance'.
- 2 were in 'Draft' Report status, with a Level 4 'Substantial Assurance' Audit Opinion.
- 2 Briefing Reports issued (Public Health Grant Budget Management & Cash Handling – Community Resource Centres). An Assurance Level is not assigned to these reviews as they are consultative work.
- 7 were 'Work-In-Progress'.
- Assurance work was carried out and Audit Report Letters despatched to the relevant funding body (e.g. WECA) for 34 grant funded projects / activities to provide independent assurance that B&NES Council had complied with grant expenditure terms and conditions – e.g. eligibility of spend. This was 9 (36%) more than carried out in the previous financial year.
- The Internal Audit service directly carried out one financial irregularity investigation during the financial year. Another case was referred to the Council's One West Investigation team for them to carry out the necessary investigation work. A member of the Internal Audit Team provided oversight to ensure any internal control weaknesses were corrected.
- Anti-Fraud and corruption training / guidance was provided to B&NES employees through the September and November 2023 Anti-Fraud Bulletins, the November bulletin coincided with International Fraud Awareness Week.
- The Internal Audit service has continued its role as the Council's Key Co-ordinator for the Cabinet Office National Fraud Initiative (NFI). The NFI is a data matching exercise that helps to detect and prevent fraud. It is conducted by the Cabinet Office under its statutory data matching powers. B&NES

Council datasets for NFI 2022 included: blue badges, Council Tax, Covid19 grants, electoral registration, housing waiting lists, payroll, pensions, and resident parking permits.

- Took a leading role in the annual governance review of the Council enabling the Annual Governance Statement 2022/23 to be compiled and included in the Council's Statement of Accounts.

3.5 2023/24 INTERNAL AUDIT REVIEW ASSURANCE RATINGS

3.5.1 As stated in 3.4 an analysis of the 'core' audit reviews carried out and issued as 'Final'/'Draft' Reports in 2023/24 identified that:

- 1) 5 reports (29%) provided Substantial Assurance (Level 4)
- 2) 12 reports (71%) provided Reasonable Assurance (Level 3)

3.5.2 The opinion statements for these assurance levels are:

Substantial Assurance - The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.

Reasonable Assurance - The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.

3.5.3 It was pleasing that a 'Limited' or 'No' Assurance report was not issued in 2023/24.

3.6 UNPLANNED WORK

3.6.1 In addition to the core planned internal audit reviews the Internal Audit team has carried out two 'unplanned' reviews following requests from senior management:

- 1) Cash handling at two Community Resource Centres - Cleeve Court and Combe Lea. The review included: resident's cash, amenity funds and petty cash accounts. Alternative financial administration options such as the use of Corporate Purchasing Cards for purchases was also examined as an alternative to petty cash.
- 2) Public Health Service Budget Management to provide an independent review of the service budget allocations, the use of the Public Health grant on 'other Council activity achieving public health outcomes', and the related monitoring and reporting of budgets.

3.6.2 These 'Briefing Reports' do not record an assurance rating as the primary purpose of these reviews was to analyse the specific areas of business/service activity and report findings to management.

3.7 IMPLEMENTATION OF RECOMMENDATIONS

3.7.1 During 2023/24, 23 previous years Audit Reports were followed up to verify the implementation of recommendations.

3.7.2 The Follow-Up process requires management to provide their feedback on implementation of recommendations. If the recommendation is linked to 'High' risk weakness, then the Auditor carrying out the Follow-Up will seek evidence of implementation. It is pleasing to report that the findings were good in that recommendations for 13 of the 23 Reports had all been implemented in line with the management agreed timescales.

3.7.3 Of the remaining 10 Reviews, implementation of recommendations was on-going and/or the implementation dates had been rescheduled. This included four Assurance Level 2 audit reviews – see the table below - which records the position as at the date of the 'follow-up'.

Level 2 'Limited Assurance' Audit Reviews where recommendations were still to be implemented

Audit Name	Recommendations Raised				Recommendation Status
	High	Med	Low	Total	
IT - Cyber Incident Response Plan (CIRP)	6	3	0	9	<p><u>June 23 Follow-Up:</u> 1 'High' - partially implemented linked to Emergency Planning / Bus Continuity delay in CIRP being presented to IT Steering Group.* 2 'High' risk recs - delayed implementation linked to recruitment process.** April'24 Update. *The CIRP was approved by the IT Steering Group on 14th of December 2023. ** Implementation of these two recommendations no longer required based on the MS Azure Sentinel solution (cloud-native tool that helps detect, investigate, and respond to threats if any are found) being implemented for a one year period.</p>
IT - Cyber Security Education & Awareness	5	3	2	10	<p><u>Dec'23 Follow-Up:</u> 4 'H' – agreed revised implementation dates between Jan & July 2024. Staff Learning Zone Mandatory element.</p>
IT – Capacity & Availability	2	2	0	4	<p><u>Jan '24 Follow-Up:</u> 1 'H' implemented but 1 'H' had a revised implementation date (Sept 2024) linked to the migration of server workloads to Azure.</p>
S106 use of funding within timescales	3	2	0	5	<p><u>Feb '24 Follow-Up:</u> 3 'H's' not implemented as Project work delayed. April '24 Update. Business Change Hub resources to be allocated to assist in developing a work programme to get all services areas to use Exacom system to track, monitor and report.</p>

3.8 COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS

3.8.1 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1st April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government, Central Government and the NHS. The PSIAS were last revised with effect from 1st April 2017 and are based on the Institute of Internal Auditors' International Standards. The objectives of the PSIAS are:

- Define the nature of internal auditing within the UK public sector.
- Set basic principles for carrying out internal audit in the public sector.
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations.
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

3.8.2 The Audit Committee are reminded that an external review of Audit West's conformation against the existing standards took place in late 2022 and the results were received in 2023. The review concluded a rating of 'Generally Conforms', which is the top rating and means that North Somerset Council's internal audit service has a charter, and policies and processes that are judged to be in conformance with the PSIAS / Core Principles and Code of Ethics.

3.8.3 The IIA released new Global Internal Audit Standards in January 2024 following a consultation process, these will become effective for Local Government on 1st April 2025. The Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. At the heart of the Standards are 15 guiding principles that enable effective internal auditing.

3.8.4 Internal audit functions may start adopting the standards now, however the existing (2017) standards remain approved for a one-year transitional period. Audit West staff will be attending workshops throughout 2024/25 to understand more about the new standards, the work that will be needed to adhere to them, including requirements around external assessment.

3.9 FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK

3.9.1 The Internal Audit Charter states that the Chief Audit Executive is required to give an opinion on the internal control framework.

3.9.2 Statement of the Chief Audit Executive—

Internal Audit has not reviewed all risks and assurances relating to Bath & North East Somerset Council during 2023/24 and cannot provide absolute assurance on the internal control environment. Senior management and members are ultimately responsible for ensuring an effective system of internal control. In terms of breadth of coverage, audit work has been performed across the Council's key services and in relation to its strategic risks.

Recruitment and retention of internal audit professionals has been an issue in 2023/24 and this has resulted in amendments to the internal audit plan. However, sufficient internal audit work has been carried out and it's my opinion taking into account the wider governance framework including assurances provided by other reliable sources such as the Council's External Auditor, that the Council's internal control framework and systems to manage risk are reasonable.

The Council's internal control framework and systems to manage risk had not altered significantly from the previous year.

- Reasonable assurance can be provided over the council's systems of internal control, helping to ensure corporate priorities can be achieved.
- There were not any significant reported breaches of Council's policies, including Financial Regulations and Contract Standing Orders.
- Managers throughout the Council were aware of the importance of maintaining adequate and effective governance arrangements.
- Appropriate arrangements were in operation to prevent and detect fraud and audit reviews and investigations did not identify any systemic failures.
- Senior Management - led by the Chief Operating Officer as risk management sponsor – demonstrate a pro-active approach to the fundamental themes of good governance and risk management.
- There were no fundamental system failures or control breakdowns to business - critical functions.

Financial pressure on the Council continues and in addition to the implications of Brexit and the Covid-19 pandemic, the economy has been impacted by the ongoing conflicts in Ukraine and the Middle East which have added inflationary pressures to Council budgets. The financial challenge is a significant issue and the related risks need to be managed.

It is important to maintain an effective framework of internal control, risk management and governance to manage risks and provide services to achieve the Council's objectives. An effective Internal Audit service is a vital component of the Council's governance, providing the third and final line of defence.

4 STATUTORY CONSIDERATIONS

- 4.1 There are no specific statutory considerations related to this report. Accounts & Audit Regulations set out the expectations of provision of an Internal Audit service. This is supported by S151 of the Local Government Act and CIPFA Codes of Practice and the IIA professional standards for delivery of an adequate Internal Audit Service.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 There are no direct resource implications relevant to this report.

6 RISK MANAGEMENT

6.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance. Significant risks to the council arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees and undetected fraud. Internal Audit assists the Council in identifying risks, improvement areas and recommending good practice.

6.2 The Corporate Audit Committee has specific responsibility for ensuring the Council's Risk Management and Financial Governance framework is robust and effective.

7 EQUALITIES

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 CLIMATE CHANGE

8.1 There are no direct climate change implications related to this report.

9 OTHER OPTIONS CONSIDERED

9.1 No other options to consider related to this report.

10 CONSULTATION

10.1 The Council's Section 151 Officer has had the opportunity to input to this report and has cleared it for publication.

Contact person	<i>Andy Cox, Head of Audit & Assurance (01225 477316)</i>
Background papers	<i>Reports to Corporate Audit Committee 19th May 2022 - Internal Audit Plan - 2022/2023; 24th November 2022 Internal Audit Update Report.</i>
Please contact the report author if you need to access this report in an alternative format	

Internal Audit Reviews Position Statement (as at 31st March 2024)

Appendix 1

Audit Review	Status	Assurance Level	Recommendations	
			Made	Agreed
Adult Community Services - Governance - Programme Management	Final Report	4	4	4
Children Services - Implementation of Management Plan	Final Report	3	8	8
Workforce - Recruitment & Retention	Final Report	3	5	5
WECA Funded Schemes (CRSTS) - Use of Funding within timescales	Draft Report	4	10	Awaited
City Regions Sustainable Transport - Use of funds & performance management	Merged with 23-004B			
Home to School Transport - Current and future management & delivery	Final Report	3	13	8
School Theme Review - Schools Financial Value Standard (Maintained Schools)	Final Report	4	N/A	N/A
Planning Enforcement	Final Report	3	10	10
Procurement - Modern Slavery	Final Report	3	5	5
Care Leavers - Extended Duties (Statutory Responsibilities)	Final Report	3	7	7
Procurement - Purchase Card expenditure	Final Report	3	4	4
Avon Pension Fund --Pension Investments Reporting	Final Report	4	4	4
Avon Pension Fund - Scheme of Delegation	WIP			
Avon Pension Fund - Year End Procedures	WIP			
Housing Services - Management of Housing Rent & Charges	Draft Report	4	5	Awaited
Deputyship Service	Final Report	3	10	10
GLL Contract Management - Governance	Final Report	3	8	8
Bankline - Treasury Management Investment and 'other Council payment' Transactions	Final Report	4	6	5
User Access Management - Starters, Leavers (Council) and Post Changes	WIP			
Firewalls	WIP			
Malware and Ransomware	WIP			
Corporate Wi-Fi Networks and Smart Devices.	WIP			
Property - Corporate & Commercial Estate Planned Reactive Maintenance	WIP			
Foster Care Placement Payments	Final Report	3	2	2
IT - Secure configuration (Servers and Systems)	Final Report	3	4	4
Public Health Grant Budget Management - Briefing Report	Briefing Report	N/A	5	5
Cash Handling – Community Resource Centres (CRC's)	Briefing Report	N/A	8	Awaited