Internal Audit Annual Report 2022-23

1. Introduction

1.1. Purpose of this report

1.1.1. This report summarises the work that Internal Audit has undertaken during the financial year 2022/23 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment, risk management and governance arrangements across the Council.

1.2. The Role of Internal Audit

1.2.1. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The purpose of UDC's Internal Audit section is to provide independent, objective assurance and consulting services to the Council (via the GAP Committee, Chief Executive, Section 151 Officer, External Audit and senior managers), relating to these arrangements, which are designed to add value and improve the Council's operations. The Council's response to Internal Audit activity should lead to the strengthening of the control environment.

1.2.2. Each year, we seek to adapt and enhance our audit approach in order to take in to account the Council's risk profile and changes in the system of internal control. This ensures that our work remains focused on the areas of high risk and seeks to avoid duplication of effort, where there are other sources of assurance in operation, for example, External Audit.

1.2.3. Internal Audit remains free from all conditions that threaten the ability of the Council's Internal Auditors to carry out their responsibilities in an unbiased manner, including matter of audit selection, scope, procedures, frequency, timing and report content. If the Audit Manager determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties. This has not arisen for 2022/23. The Council's Internal Auditors also maintain an unbiased mental attitude that allows them to perform engagements objectively. Internal Auditors have had no direct operational responsibility or authority over any of the activities audited.

1.2.4. Our Internal Audit Charter will be presented to Senior Management and GAP Committee in June 2023 and will continue to be updated and appended to the annual Internal Audit Plan each year.

1.3. Overview of the Internal Audit Approach

1.3.1. The Public Sector Internal Audit Standards (PSIAS) require that the Audit Manager provides an annual audit opinion and a report that can be used by the organisation to inform its governance statement in respect of the overall adequacy and effectiveness of the organisation's framework of governance, risk management and internal control.

1.3.2. This is achieved through a risk-based plan of work, agreed with management and approved by the GAP Committee, which should provide a reasonable level of

assurance, subject to the inherent limitations set out in Appendix A. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

1.3.3. Internal audit work was performed in accordance with the Council's Internal Audit methodology which is in conformance with the PSIAS.

1.3.4. The audit plan for 2022/23 was approved by GAP Committee in February 2022. The Internal Audit Team was made up of the following resources during 2022/23:

- 0.5 FTE Audit Manager (seconded 18 hours a week from Chelmsford City Council to deliver Internal Audit services to UDC).
- 1.6 FTE Auditor

2. Internal Audit Opinion

2.1. Internal Audit is satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the organisation is reasonable assurance there are no major weaknesses in the Council's risk management, control and governance processes.

2.2. In assessing the level of assurance to be given, the following has been considered:

- All audits undertaken in the year
- Any follow up action taken in respects of audits from previous periods
- The effects of any significant changes in the Council's systems or objectives
- Any limitations which may have been placed on the scope of internal audit
- The extent to which resource constraints may impact on the Audit Manager's ability to meet the full needs of the organisation.
- The results of work performed by other assurance providers, such as External Audit.

OVERALL OPINION	**Limited Assurance –** a number of significant control weaknesses, have been identified in individual assignments during 2022/23, which may put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. Please see our Summary of Findings in Section 4. Internal Audit reached this conclusion because the medium and high risk rated weaknesses identified in individual assignments are considered to be significant in aggregate to the system of internal control, but discrete parts of the system of internal control remain unaffected. The critical rated weakness identified is also not considered to be pervasive to the system of internal control. This opinion has been derived from consideration of the detail below. An explanation of the types of opinion that may be given can be found in Appendix A.

3. Other Sources of Assurance

3.1. Risk Management Framework

3.1.1. The Council utilises risk management as part of a package of performance management related measures to enable it to deliver its corporate priorities. By identifying and assessing risks and making informed decisions on the extent to which these risks need to be mitigated, the Council can ensure it is effectively tackling threats and maximising opportunities.

3.1.2. The Council's Corporate Risk Register should comprise the most significant risks for the Council in delivering its corporate objectives and services as set out in the Corporate Plan and Corporate Plan Delivery Plan and/or the risks that have the potential to disrupt or stop altogether the council's work. The Council's identified risks are managed within the corporate performance management system, Pentana. The Council's risk information and corporate/service plans are considered as part of Internal Audit work, in order to ensure that the Internal Audit programme is focussed on the Council's highest risks/key priorities.

3.1.3. Internal Audit will undertake an independent assessment of the Council's approach to Corporate Risk Management in 2023/24, to identify any organisational improvement opportunities to ensure that the Council's risk management approach is proportionate and robust.

3.2. Internal Audit View on the Risk of Fraud

3.2.1. The Council's approach to Counter Fraud was refreshed in 2021/22 to ensure it is in line with best practice, CIPFA's guidance on Managing the Risk of Fraud and Fighting Fraud and Corruption Locally.

3.2.2. The 2022 Counter Fraud Strategy encompasses key principles such as acknowledging the responsibility for countering fraud and corruption, identification of fraud and corruption risks, provision of resources to implement the strategy and the action to be taken in response to fraud and corruption.

3.2.3. Supplementing the Strategy is an action plan which sets out how Counter Fraud Strategy will be delivered over the next year to March 2024, and by whom. A key part of this governance and delivery will be the Council's Counter Fraud Working Group who will provide operational oversight of the Council's counter-fraud activities across all areas of the Council, including those specifically recognised as high-risk areas i.e., Revenues, Benefits, Internal Audit, HR, Cyber Security/Information Governance, Democratic Services, Finance, Procurement, Housing, Insurance and Risk.

4. Summary of Findings

4.1. Key themes identified in 2022/23

The Internal Audit Opinion considers the number of limited assurance reports/high priority findings and their overall impact on the control environment. A summary of the key issues arising from these reports is presented below:

Report Title	Assurance Rating	Critical	High	Medium	Low	Key Issues Arising
Uttlesford Norse (UNSL) Governance Arrangements	In the original report, one critical, three high and four medium priority issues were identified. An Implementation Status Report was presented to GAP in August 2022, highlighted that of the 26 recommendations, 2 had been implemented (which related to high priority Communication recommendations), 21 were work in progress, 2 are outstanding, and 1 is no longer applicable, meaning that all 9 areas of risk originally identified, including the critical finding relating to Health and Safety, and the three high priority findings relating to Safeguarding, Roles and Responsibilities, and Communication had only been partially addressed at the point of the review and it was not possible for Internal Audit to provide independent assurance that the control environment had significantly improved and it therefore remained indicative of a 'no assurance' opinion. Given the significant work that has taken place since the original review it has been agreed that a new audit on this area will be undertaken in 2023.					
Safeguarding	Limited	0	3	2	0	In the previous report, three high and two medium priority issues were identified. Based on the evidence presented, our follow up review highlighted that one high priority and one medium priority recommendation have been implemented. While the remaining two high priority recommendation relating to Risk Management and social media and Photography/Filming, and one medium priority, have been partially implemented, the outstanding requirements are considered to be minor. he findings from the original audit were indicative of a 'limited' assurance opinion. While a full audit would need to be undertaken to revise the assurance rating, the high rate of implementation of recommendations and positive

Report Title	Assurance Rating	Critical	High	Medium	Low	Key Issues Arising
						action taken by management in response to the original report, suggests that the control environment (in relation to the specific areas covered by the follow up), has improved and is now indicative of 'moderate' assurance.
Planning Investigations	Limited	0	3	2	0	In the previous report, three high and two medium priority issues were identified. Based on the evidence presented, our follow up review highlighted that all high priority and one medium priority recommendation have been implemented. The remaining outstanding action is awaiting the roll out of wider Bribery Act corporate training. The findings from the original audit were indicative of a 'limited' assurance opinion. While a full audit would need to be undertaken to revise the assurance rating, the high rate of implementation of recommendations and positive action taken by management in response to the original report, suggests that the control environment (in relation to the specific areas covered by the follow up), has improved and is now indicative of 'moderate' assurance.
CCTV and RIPA	Limited*	0	4	6	0	Four high priority findings were identified relating to the Council's governance and management arrangements for CCTV, which may result in the Council failing to meet its legal and ethical obligations in respect of Data Protection legislation and CCTV Code of Practice. A further six medium issues were identified. Follow up Audit is planned for 2023/24.

4.2. Grants Sign Off

4.2.1. During 2022/23, Internal Audit were required to carry out a sign off exercise and review to ensure that the conditions attached to the following Government grants were complied with. No issues were noted.

- **Biodiversity net gain Grant** - Defra

4.3. Management's Response to Implementing Audit Recommendations

4.3.1. A key measure of success and a strong internal control environment is timely implementation of recommendations. All planned audit work undertaken which is subject to limited assurance will have a formal follow up to ensure that all agreed actions have been implemented.

4.4. Due to timing of implementation dates the following previous year (2022/23) reviews will be followed up in 2023/24:

Original Audit Title	Original Assurance Rating
UNSL Governance Arrangements	Management Letter (1 critical, 3 high priority findings) (see above)
CCTV/RIPA	Limited

4.5. Summary of remaining reviews

Report	Key Issues
Leasehold Service Charges	In the previous report, two medium priority issues were identified. Based on the evidence presented, our follow up review highlighted that both recommendations have been implemented.
Conflicts of Interest	In the previous report, one high and five medium priority issues were identified. Based on the evidence presented, our follow up review highlighted that two medium recommendations have

Report	Key Issues
	been implemented. However, the high priority has not been implemented and the remaining medium priority recommendations are outstanding.
Information Governance	In the previous report, one high and five medium priority issues were identified. Based on the evidence presented, our follow up review highlighted that one medium recommendation has been implemented. The high priority relating to Risk Management and remaining four medium priority recommendations have been partially implemented. A follow up Audit concluded a Moderate assurance level due to the number of medium priorities still be implemented. The revised target date for completion for all outstanding recommendations is 31st March 2023
Domestic Waste & Recycling	In the previous report, one high and seven medium priority issues were identified. Based on the evidence presented, our follow up review highlighted that the high priority in respect of Data Protection and six medium recommendations were partially implemented. One medium recommendation has not yet been implemented. The follow up concluded Moderate assurance level as the majority of recommendations have only been partially implemented. The revised target date for completion for all outstanding recommendations is 31st March 2023.
Business Continuity & Emergency Planning	In the previous report, four medium priority issues were identified. Based on the evidence presented, our follow up review highlighted that three have been implemented. The remaining outstanding medium priority recommendation has been partially implemented, awaiting Comms team input.
Section 106	In the previous report, two high level and one medium issue was identified. Based on the evidence presented, the follow up review highlighted that the two high level recommendation have been implemented, the remaining one medium priority is only partially implemented. The follow up concluded that the assurance level be reduced to Moderate. The revised target date for completion for all outstanding recommendations is June 2023.
Economic Development	In the previous report, one low priority issue was identified. Based on the evidence presented, our follow up review highlighted that the recommendations have all been implemented.
Housing Allocations	In the previous report, six medium priority issues were identified. Based on the evidence at the follow up all recommendations have been implemented.

Report	Key Issues
Grants Governance	In the previous report, 2 high and 4 medium priorities were identified. The follow up concluded that the control environment has improved and recommendation have been implemented, therefore no further action is required.

5. Reconciliation between Original Plan received by GAP (February 2022 to June 2023

Original Plan received by GAP	Current Status
Uttlesford Norse	Complete – follow up required in 2023/24
Officer and Member Conflicts of Interest	Completed
Governance and Decision Making	Deferred to 2023/24 due to resourcing
Capital Expenditure	Draft report stage
Safeguarding	Completed
Leasehold Service Charges	Completed
Planning Investigations	Completed
CCTV/RIPA	Completed – follow up required in 2023/24
Income Generating Waste	Completed
KFS 2022/23 (Cash Management)	Completed
Risk Management	Deferred to 2023/24 due to resourcing
Procurement and Contract Management	Draft report stage
Climate Change	Completed
Cyber Security	Deferred to 2023/24 due to wider Council work in this area.
Local Plan	Deferred to 2023/24 due to wider Council work in this area.

Original Plan received by GAP	Current Status
PFI	Deferred to 2022/23 due to resourcing limitations
Uttlesford 2027 Programme Management	Deferred to 2023/24 due to resourcing
Saffron Walden Museum	Deferred to 2023/24 due to resourcing
Business Continuity and Emergency Planning	Completed
Economic Development	Completed
Budgetary Control	Deferred to 2023/24 due to resourcing
Licensing	Completed
Grants Received	Completed
Corporate Health & Safety Governance	Completed
Housing Rents	Deferred to 2023/24 due to resourcing
HR Payroll	Completed
Housing Allocation	Completed
Planning Applications	Completed
Temporary Accommodation	Deferred to 2023/24 due to resourcing
Homelessness Strategy	Completed

6. Review of the Effectiveness of Internal Audit

6.1. Our performance against Key Performance Indicators (KPIs) used to demonstrate the effectiveness of the internal audit function during 2022/23 is shown in the table below.

KPI	Target	Result 2021/22	Comments
Audit Plan delivered to Draft Report Stage by 31st March:	90%	**n/a**	No Audit Manager in place from October 2022.
Audit Plan delivered to final report stage by 30th April:	100%	**50%**	
Completion of follow ups for applicable audit reports by 30th April.	100%	90%	
Customer Satisfaction results: overall average score good/excellent good or good) each survey returned	100%	100%	
Audit areas where the indicative level of assurance has improved from no assurance/ limited assurance at the follow-up stage	n/a for 2022/23 follow ups.		

6.2. Quality assurance and improvement programme

PSIAS require that Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity. Periodic reviews of the quality of internal audit work completed internally and the Audit Manger reviews all draft and final reports. Planning and delivery of the Service (including this Annual Report) has been done in conformance with the requirements of the PSIAS.

7. Update on Progress of Internal Audit Strategy 2022-23

The Internal Audit Strategy 2021-22 was approved by GAP in June 2021. Progress is documented below.

Original Strategy Goal	2021/22 Progress
Develop a planning process which identifies the Council's most significant internal and external risks and deliver an Annual Internal Audit Plan focussing on these key risks, and which meets stakeholder needs.	The 2021/22 Internal Audit Plan was developed using a prioritisation of the audit universe using a risk-based methodology, including input from the Council's Corporate Plan, Corporate Risk Register, as well as discussions with Council staff, senior management, plus consideration of local and national issues and risks. The plan was discussed and agreed by Senior Managers, CMT and GAP Committee. A contingency was also included in the plan to cover requests from management for ad hoc, advisory type work

Original Strategy Goal	2021/22 Progress
	on risk identification and subsequent control design (as well as urgent, unplanned reviews arising during the year).
To contribute to the Council's delivery of its governance and assurance framework	Internal Audit also use the Corporate Risk Register, and other risks identified through the risk management framework, to inform the annual risk-based Internal Audit plan and to inform audit planning for individual audit assignments. Internal Audit will bring any serious, emerging issues to the attention of Management and GAP Committee. Internal Audit will undertake an independent assessment of the Council's approach to Corporate Risk Management in 2023/24, to identify any organisational improvement opportunities to ensure that the Council's risk management approach is proportionate and robust. The Council's approach to Counter Fraud was refreshed in 2021/22 to ensure it is in line with best practice, CIPFA's guidance on Managing the Risk of Fraud and Fighting Fraud and Corruption Locally. The 2022 Counter Fraud Strategy encompasses key principles such as acknowledging the responsibility for countering fraud and corruption, identification of fraud and corruption risks, provision of resources to implement the strategy and the action to be taken in response to fraud and corruption. The group has been put on hold until a new Audit Manager is recruited.
To be a trusted advisor to Senior Managers and GAP Committee	As demonstrated through the Internal Audit Annual Report and organisation feedback.
To monitor the critical skills and resource blend required to ensure Internal Audit deliver their mission and objectives.	In-house team training needs are monitored. The new Audit Manager is to be recruited 37 hours a week to deliver Internal Audit services to Uttlesford District Council.

Original Strategy Goal	2021/22 Progress

Appendix A

Annual Opinion Categories

The table below sets out the four types of annual opinion that Internal Audit use, along with the types of findings that may determine the annual opinion given. The Audit Manager will apply their judgement when determining the appropriate annual opinion, so the guide given below is indicative rather definitive.

Type of Annual Opinion	When to use this type of annual opinion
Substantial	• Generally, only low risk rated weaknesses found in individual assignments; and • None of the individual assignment report have an overall report classification of either high or critical risk
Moderate	• Medium risk rated weaknesses identified in individual assignments that are *not significant in aggregate* to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are *isolated* to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk
Limited	• Medium risk rated weaknesses identified in individual assignments that are *significant in aggregate but discrete* parts of the system of internal control remain unaffected; and/or • High risk rated weaknesses identified in individual assignments that are *significant in aggregate but discrete* parts of the system of internal control remain unaffected; and/or • Critical risk rated weaknesses identified in individual assignment that are *not pervasive* to the system of internal control; and • A *minority* of the individual assignment reports may have an overall report classification of either high or critical risk.
No	• High risk rated weaknesses identified in individual assignments that *in aggregate are pervasive* to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are *pervasive* to the system of internal control; and/or • *More than a minority* of the individual assignment reports have an overall report classification of either high or critical risk.

Appendix B

Key to Assurance Levels in Individual Reports

No Assurance	There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.
Limited	There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.
Moderate	An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses, but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.
Substantial	There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be advice and best practice.

Key to Risk Ratings for Individual Findings in Reports

Critical	Financial: Severe financial loss; Operational: Cessation of core activities; People: Life threatening or multiple serious injuries to staff or service users or prolonged workplace stress. Severe impact on morale & service performance. Mass strike actions etc; Reputational: Critical impact on the reputation of the Council which could threaten its future viability. Intense political and media scrutiny i.e. front-page headlines, TV; Legal and Regulatory: Possible criminal, or high-profile civil action against the Council, members or officers. Statutory intervention triggered impacting the whole Council. Critical breach in laws and regulations that could result in material fines or consequences; Projects: Failure of major Projects and/or politically unacceptable increase on project budget/cost. Elected Members required to intervene.
High	Financial: Major financial loss. Service budgets exceeded; Operational: Major disruption of core activities. Some services compromised. CMT action required to overcome medium-term difficulties; People: Serious injuries or stressful experience (for staff member or service user) requiring medical attention/ many workdays lost. Major impact on morale and performance of staff; Reputational: Major impact on the reputation of the Council. Unfavourable media coverage. Noticeable impact on public opinion; Legal and Regulatory: Major breach in laws and regulations resulting in significant fines and consequences. Scrutiny required by external agencies; Projects: Key targets missed. Major increase on project budget/cost. Major reduction to project scope or quality.
Medium	Financial: Moderate financial loss. Handled within the team; Operational: Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service Manager action will be required; People: Injuries (to staff member or service user) or stress levels requiring some medical treatment, potentially some workdays lost. Some impact on morale and performance or staff; Reputational: Moderate impact on the reputation or brand of the organisation. Limited unfavourable media coverage; Legal and Regulatory: Moderate breach in laws and regulations resulting in fines and consequences. Scrutiny required by internal committees or internal audit to prevent escalation; Projects: Delays may impact project scope or quality (or overall project must be re-scheduled). Small increase on project budget/cost. Handled within the project team.
Low	Financial: Minor financial loss; Operational: Minor errors in systems/operations or processes requiring Service Manager or Team Leader action. Little or no impact on service users; People: Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale; Reputational: Minor impact on the reputation of the organisation; Legal and Regulatory: Minor breach in laws and regulations with limited consequences; Projects: Minor delay without impact on overall schedule. Minimal effect on project budget/cost or quality.

Appendix C

Limitations and Responsibilities

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. Internal Audit shall endeavour to plan its work so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, Internal Audit 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. Accordingly, the examinations of Internal Audit should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless Internal Audit is requested to carry out a special investigation for such activities in a particular area.

Limitations inherent to the internal auditor'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 Internal Audit are not aware of because they did not form part of our 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 GAP should be aware that the opinion may have differed if the programme of work or scope for individual reviews was extended or other relevant matters were brought to Internal Audit's 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**

  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