
REPORT TO: Management Board
Audit & Governance Committee

DATE: 12 September 2022

SERVICE AREA: Finance (Audit Services)

REPORTING OFFICER: Audit Services and Fraud Manager
(*Alison Johnson*)

SUBJECT: **INTERNAL AUDIT ANNUAL REPORT 2021/22**

WARD/S AFFECTED: ALL DISTRICT

FORWARD PLAN REF: N/A

1.0 PURPOSE OF REPORT

- 1.1 To consider the key findings and conclusions from audit work undertaken in 2021/22 and to give an opinion on the overall adequacy and effectiveness of the council's arrangements for risk management and governance and on its internal controls.
- 1.2 To inform Management Board and Audit and Governance Members of the annual audit opinion of the Chief Internal Auditor.

2.0 RECOMMENDATIONS

- 2.1 That the key findings and conclusions arising from the work undertaken by the Audit Services Team during 2021/22 be noted, including confirmation that the council's governance, risk management and control arrangements were adequate and operated satisfactorily during the year.
- 2.2 That the performance of Audit Services during 2021/22 be noted.
- 2.3 That the annual audit opinion of the Chief Internal Auditor is agreed and accepted.

3.0 RECOMMENDED REASON FOR DECISION

- 3.1 To comply with the requirements of the Public Sector Internal Audit Standards (PSIAS) and the accompanying Application Note for Local Authorities produced by the Chartered Institute of Public Finance and Accountancy.

4.0 ALTERNATIVE OPTIONS CONSIDERED AND RECOMMENDED FOR REJECTION

4.1 There is no alternative.

5.0 THE REPORT

5.1 The work of Audit Services is governed by the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the Standards and the Audit Charter, the Chief Audit Executive or equivalent is required to submit an annual report which should include an overall opinion on the adequacy and effectiveness of the organisation's Risk Management and Governance arrangements and on its internal controls.

5.2 In addition, the report should:

- Provide details of any qualification to the opinion together with the reasons for the qualification (including any impairment to independence or objectivity)
- Comment on the performance of Audit Services and its Quality Assurance and Improvement Programme
- Comment on compliance with the PSIAS.

5.3 The council is responsible for ensuring it complies with the law and proper standards to carry out its business. As such the council is responsible for ensuring that effective risk management and governance arrangements and internal controls are in place in order to deliver value for money in the use of its resources and to achieve its corporate and service objectives.

5.4 Internal Auditing is an independent objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Public Sector Internal Audit Standards).

5.5 Audit Services can provide reasonable assurance on the arrangements and controls examined. This does not imply infallibility however and Internal Auditors cannot be expected to identify each weakness or irregularity. Also, Audit Services is not an extension or substitute for management. It is for management to accept audit findings and implement recommendations or to accept the risks of not taking action.

AUDIT APPROACH

5.6 On reporting lines, the Audit Services and Fraud Manager operated under the general direction of the Head of Finance, which included attendance at monthly meetings. In addition, meetings with the Chief Executive have occurred every 6 months and meetings with the Director of Corporate Affairs occur if required.

5.7 On individual assignments, Audit Services liaised with the relevant managers to agree the programme of work, kept them informed of progress during the

course of the audit in question and subsequently discussed findings and agreed recommendations.

- 5.8 The level and mix of staff for each audit was determined by the knowledge and experience of the auditors in the team relative to the complexity of each assignment. Specialist auditors, for example, on ICT matters/Project work and Fraud were allocated assignments as appropriate.
- 5.9 During 2021/22 the Audit Services and Fraud Manager met with the Chair of the Audit & Governance Committee in advance of each meeting and also attended all meetings of the Audit & Governance Committee to summarise findings and conclusions from audit work undertaken in the year.
- 5.10 During the year, Audit Services liaised with the Authority's external auditors Mazars LLP. The objective was to maximise the benefit to the Authority from all audit work to avoid duplication of coverage and to learn from each other's findings to provide maximum assurance. In addition in 2020/21, an external review was undertaken in relation to PSIAS compliance. The findings of this review was presented to both Management Board and Audit & Governance Committee and an Action Plan update is formally reported.

QUALITY ASSURANCE AND IMPROVEMENT

- 5.11 Under the PSIAS, the Chief Audit Executive must develop a quality assurance and improvement programme (QUAIP). The objectives are to assess the efficiency and effectiveness of internal audit activity, identify opportunities for improvement and to evaluate whether or not the standards are being met. The QUAIP consists of:
- Ongoing monitoring of the performance of Audit Services
 - Periodic self-assessments
 - An external assessment which is due every 5 years.

ONGOING MONITORING

- 5.12 There are management and supervision arrangements within Audit Services in order to ensure that each audit assignment meets the required quality standards. These involve discussions between Audit Management and the individual auditor concerned during the planning of the audit to ensure that key risks are covered during fieldwork and at draft and final reporting stages. The purpose is to ensure that the engagement evidence and reporting requirements set out in the PSIAS are met, together with the Code of Ethics (integrity, Objectivity, Confidentiality, Competency).
- 5.13 Following each applicable audit, Audit Services send out a Post Audit Questionnaire (PAQ) to the relevant Client Manager for feedback on the quality of the audit from the client perspective and on whether any improvements could be made. The PAQ asks 9 questions and provides for responses ranging from "very satisfied" to "very dissatisfied". In 2021/22 100% of responses received were either very satisfied or satisfied with the quality and standard of work undertaken by the Audit Services team.

AUDIT OPINION

- 5.14 The Public Sector Internal Audit Standards (Performance Standard 2450) states that:
“The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.”

This must be based on an objective assessment of the framework of governance, risk management and control within the council’s governance, operations and information systems.

- 5.15 ***The overall opinion for this year is that, based on the audit work undertaken during 2021/22, the council’s framework of governance, risk management and internal control is satisfactory and operating effectively in practice.***

6.0 REQUIRED ASSESSMENTS AND IMPLICATIONS

- 6.1 The following were considered: Financial Implications; Human Resources Implications; Legal Implications; ICT Implications; Strategic Property/Asset Management Considerations; Risk Assessment; Equality and Diversity (the Public Sector Equality Duty and impact upon people with protected characteristics). If applicable, the outcomes of any consultations, assessments, considerations and implications considered necessary during preparation of this report are detailed below.

6.2 Financial Implications:

The council has received £54,909 from Craven District Council as its contribution towards the cost of the Shared Service in 2021/22.

6.3 Legal Implications:

The submission of an Internal Audit Annual report to an authority’s Audit Committee is a requirement under the Public Sector Internal Audit Standards. It is a legal requirement to comply with the Standards as these set out the proper Internal Audit practices authorities must follow under the Accounts and Audit regulations.

6.4 Risk Assessment

The major risks are:-

- Insufficient resources and capacity to provide audit assurance and meet the statutory requirements of the Public Sector Internal Audit Standards, for example vacant posts or long-term sickness
- Balancing competing needs and demands for audit resources from Harrogate and Craven at any one time.
- The impact of LGR related work and resources has had a significant impact on the ability to complete audit work which has resulted in some

audits not being issued in final. However it is the opinion of the Audit Services and Fraud Manager that this has had little to no impact on the annual assurance opinion as the Audit Services Team have had regular input and communication with the service areas concerned.

- The requirement for significant investigations has meant that some planned work had to be deferred without an increase in overall resources.

7.0 CONCLUSIONS

7.1 As noted above, the Chief Audit Executive (Audit Services and Fraud Manager) has provided an opinion that the council's framework of governance, risk management and internal control is **satisfactory**. This opinion has been based on:

- Written reports on all audit work completed during the course of the year.
- Results of any follow up work undertaken in respect of previous years' audit work. Additional attention has been directed at follow up work to ensure as many recommendations are closed down before transfer to the new Council.
- Results of work from other review bodies where appropriate
- Extent of resources available to deliver Audit Services work
- Compliance with the Public Sector Internal Audit Standards.

Background Papers – None

OFFICER CONTACT: Please contact Alison Johnson, Audit Services and Fraud Manager, if you require any further information on the contents of this report. The officer can be contacted at Audit Services, PO Box 787, Harrogate, HG1 9RW, 01423-500600 or by e-mail – Alison.johnson@harrogate.gov.uk