



Annual Internal Audit Report and Opinion 2022/23

1. Introduction and context

- 1.1 This report outlines the audit work carried out by the Internal Audit Service for the year ended 31st March 2023.
- 1.2 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. Internal audit helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, compliance and governance processes.
- 1.3 Internal audit is a statutory requirement for local authorities, in accordance with:
- Section 151 of the Local Government Act 1972 – which requires every local authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs; and
 - The Accounts and Audit Regulations 2018 (England) – which state that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.
- 1.4 Internal audit independence is achieved by reporting lines which allow for unrestricted access to the Chief Executive, Corporate Leadership Team (which includes the Section 151 Officer), and the Chair of the Audit and Governance Committee. Internal auditors have no direct operational responsibility or authority over any of the activities audited and the Internal Audit Charter sets out how independence and objectivity is maintained and evidenced.
- 1.5 The Public Sector Internal Audit Standards require the Chief Internal Auditor to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1 and takes into account other sources of assurance, as appropriate. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.
- 1.6 As such, the Annual Report contains:
- the Internal Audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
 - a summary of the audit work from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
 - a statement on the extent of conformance with the Standards.

2. Head of Internal Audit Opinion 2022/23

2.1 Based upon the work undertaken by Internal Audit during the year, the Chief Internal Auditor's overall opinion on the Council's system of internal control is set out below:

The 2022/23 financial year has been the second year of the Council's operation and the first with an in-house internal audit service. The internal audit coverage in any single year cannot seek to cover all areas of governance, risk and control and the opinion is given in this context.

I am satisfied that sufficient internal audit work has been undertaken to inform an opinion on the adequacy and effectiveness of governance, risk management and internal control for 2022/23. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

It is my opinion that **Satisfactory Assurance** can be given over the adequacy and effectiveness of the Council's control environment for 2022/23 – see definition of assurance opinions in section 4.1 of this report. This control environment comprises of the system of internal control, governance arrangements and risk management. Limitations over this opinion are detailed and explained further below.

Financial control

Controls relating to the key financial systems which were reviewed during the year were all concluded to be operating at a level of Satisfactory Assurance or above, with 71% receiving opinions of Good or Substantial Assurance.

This must be caveated in that year end assurances over the financial systems for payroll, pensions and user access controls are subject to internal audit by the lead authority for those services (which is outside North Northamptonshire Council), and the audit reports are yet to be received from the lead authority at the time of writing. The audits of the housing benefit system and local taxation are also yet to be finalised, and will be reported to the committee once the reports are issued as final – neither of these audits has identified any issues that would impact on the annual opinion as at the time of reporting.

Risk management

The Council's structures and processes for identifying, assessing and managing risk have been further developed during 2022/23. Directorate level risk registers have been subject to regular review and the Strategic Risk Register has been regularly reported to the Audit and Governance Committee in June 2022, November 2022 and April 2023. The risk register template has been further developed this year to incorporate inherent and current risk scores and expanded to include sources of assurance.

Internal control

For the audits completed by the Internal Audit service in 2022/23 and finalised at the time of reporting, 94% of the opinions given in relation to the control environment and compliance have been of at least Satisfactory Assurance.

The audit plan coverage had targeted areas of known risk and was informed through consultation with senior management and the Audit and Governance Committee. Based on the audit findings, opinions of Limited Assurance were given by Internal Audit in relation to housing repairs and leased assets. In both cases, there were weaknesses in the design of the control environment due to maintenance of multiple legacy systems and processes, rather than a single Council approach. This has been a theme noted within the audit work in 2022/23 and it is of assurance to note that, in the majority of cases, there is evidence of a move towards adoption of single systems and processes. No audits completed in 2022/23 resulted in an opinion of 'Major' organisational risk.

Of the recommended actions agreed during 2022/23, and due for implementation, 71% had been completed during the year. Areas receiving opinions of less than Satisfactory Assurance in 2021/22 were re-visited by Internal Audit in 2022/23 and, in all cases, the progress made was evident, resulting in an improved assurance opinion on those controls. This provides assurance that management are addressing areas of weakness highlighted by the audit work.

There have been no incidences during 2022/23 where the internal audit team have highlighted a fundamental risk or weakness and management have sought to accept the risk, rather than agree an appropriate action.

In respect of Council services hosted by West Northamptonshire Council, some assurances have been received from the West Northamptonshire Council internal audit service to inform the audit opinion. In respect of Home to School Transport, which received a Limited Assurance opinion and was reported to the Audit and Governance Committee in November 2022, the service transferred in house during 2022/23 and officers have advised that all actions from the audit have since been implemented. A limitation on the scope of the overall opinion for 2022/23 relates to the IT systems hosted under these lead authority arrangements, where assurances are being sought regarding key controls.

The Council's children's services are delivered by Northamptonshire Children's Trust (the Trust). As such, a source of assurance for the Council would usually be the annual assurance opinion and report from the internal auditors of the Trust. During 2022/23, the Council's Chief Internal Auditor met with the Trust and their internal auditors in order to gain assurances over the coverage and outcome of their work. As at the time of reporting, the annual report for the Trust has not been received and the internal audit assignments for 2022/23 remain in fieldwork stages – as such, assurances on this work cannot inform the Council's annual internal audit opinion at this time and a limitation is noted in respect of this, pending the Trust's annual report. Discussions with the Trust's internal auditor suggest that the annual report for the Trust will be reported to the Trust's Audit Committee in August 2023. Performance reporting and reports from regulators, such as Ofsted, have been received during the year and inform assurances in this area.

Internal Audit has not been made aware of any further governance, risk or internal control issues which would reduce the above opinion. No systems of controls can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

- 2.2 The basis for this opinion is derived from an assessment of the individual opinions arising from assignments undertaken throughout the year from the risk-based Internal Audit

plan. Assurances from other sources have also been taken into consideration, where appropriate.

- 2.3 The assessment has taken account of the relative materiality of areas highlighted for improvement and management's progress in addressing any control weaknesses.

3. Summary of findings

- 2.4 All final reports have agreed action plans, dates and responsible officers, where required. The audit opinions arising from the work of Internal Audit are summarised in Table 1, split by assurance area.

Table 1 – Summary of audit opinions 2022/23:

Area	Substantial	Good	Satisfactory	Limited	No
Financial systems	2	8	4	-	-
Adults, Communities and Wellbeing Services	-	7	9	2	-
Public Health Services	-	-	2	-	-
Place & Economy Services	-	2	8	2	-
Children's services	-	-	4	-	-
Corporate and cross cutting reviews	-	3	9	-	-
ICT reviews	-	-	6	-	-
Total	2	20	42	4	-
Summary	3%	29%	62%	6%	-
Summary (2021/22) for comparison	-	40%	50%	10%	-

- 2.5 The Internal Audit team's work has been targeted upon areas of identified risk and has sought to support service areas in identifying and prioritising areas for improvement. Areas receiving opinions of less than 'Satisfactory' assurance have been subject to senior management attendance at Audit and Governance Committee and oversight by Corporate Leadership Team with a follow up audit programmed in to ensure that progress is being made in line with recommendations.

4. Review of audit coverage

Audit opinion on individual audits

- 4.1 The Committee is reminded that the following assurance opinions were assigned during 2022/23, in accordance with the Internal Audit Charter:

Table 2 – Assurance categories:

Level of Assurance	Definition
Substantial	There are minimal control weaknesses that present very low risk to the control environment. The control environment has substantially operated as expected and either no, or only minor, errors have been detected.
Good	There are minor control weaknesses that present low risk to the control environment. The control environment has largely operated as intended although some errors have been detected.
Satisfactory	There are some control weaknesses that present a medium risk to the control environment. The control environment has mainly operated as intended although errors have been detected.
Limited	There are significant control weaknesses that present a high risk to the control environment. The control environment has not operated as intended and significant errors have been detected.
No	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment. The control environment has fundamentally broken down and is open to significant error or abuse.





































- 4.2 All individual reports represented in this Annual Report are final reports, unless otherwise stated. As such, the findings have been agreed with management, together with the accompanying action plans.































Summary of audit work

- 4.3 Table 3 details the assurance levels resulting from all audits undertaken in 2022/23 and the date of the Committee meeting at which the outcome of the audit was presented.
- 4.4 All completed assignments have been delivered in accordance with the agreed audit planning records and provide assurance in relation to the areas included in the specified scope.

Table 3 – Summary of finalised audit opinions 2022/23:

Audit Area	Design of Control Environment	Compliance	Organisational Impact	Committee Date
Financial systems – providing assurance that the Council has made arrangements for the proper administration of its financial affairs				
Treasury management	Substantial ●	Substantial ●	Minor ●	September 2022
Government Procurement Cards (GPCs)	Good ●	Satisfactory ●	Minor ●	September 2022
Bank reconciliations (Q1 – start of year)	Good ●	Good ●	Minor ●	September 2022
Budgetary control	Good ●	Satisfactory ●	Moderate ●	June 2023
Accounts payable (lead authority)	Good ●	Good ●	Minor ●	June 2023
Income processing (lead authority)	Good ●	Satisfactory ●	Minor ●	June 2023
Debt recovery (lead authority)	Good ●	Satisfactory ●	Minor ●	June 2023
Adults, Health Partnerships and Housing Priorities and Risks				
Direct payments	Good ●	Good ●	Minor ●	November 2022
Adult Safeguarding– DoLS (follow up)	Satisfactory ●	Good ●	Moderate ●	June 2023
Adult Social Care – Target Operating Model	Satisfactory ●	Satisfactory ●	Moderate ●	September 2022
Approved Mental Health Professionals (AMHPs)	Satisfactory ●	Satisfactory ●	Moderate ●	June 2023
Housing repairs	Limited ●	Limited ●	Moderate ●	April 2023

Audit Area	Design of Control Environment	Compliance	Organisational Impact	Committee Date
Housing voids management	Satisfactory 	Satisfactory 	Moderate 	April 2023
Rent arrears	Good 	Good 	Minor 	April 2023
Leisure provision	Substantial 	Good 	Minor 	February 2023
Local bank accounts (adults)	Satisfactory 	Satisfactory 	Minor 	April 2023
Public Health Services Priorities and Risks				
Public Health contract management	Satisfactory 	Satisfactory 	Moderate 	June 2023
Place & Economy Services Priorities and Risks				
S106 monitoring (follow up)	Satisfactory 	Satisfactory 	Moderate 	June 2023
Asset management (leases)	Limited 	Limited 	Moderate 	February 2023
Fleet and fuel - fraud controls	Satisfactory 	Satisfactory 	Moderate 	June 2023
Planning fee income	Satisfactory 	Satisfactory 	Minor 	April 2023
Waste management service	Good 	Good 	Minor 	February 2023
Asset management – compliance (follow up)	Satisfactory 	Satisfactory 	Moderate 	June 2023
Children's services risks				
Schools – financial controls	Satisfactory 	Satisfactory 	Moderate 	June 2023

Audit Area	Design of Control Environment	Compliance	Organisational Impact	Committee Date
Children's Trust contact management	Satisfactory 	Satisfactory 	Moderate 	June 2023
Corporate and cross cutting reviews				
Fees and charges	Satisfactory 	Satisfactory 	Minor 	November 2022
Procurement compliance (phase 1)	Satisfactory 	Good 	Minor 	November 2022
Procurement compliance (phase 2)	Satisfactory 	Satisfactory 	Moderate 	June 2023
Performance management	Satisfactory 	Satisfactory 	Minor 	June 2023
Contractor health and safety	Satisfactory 	Satisfactory 	Minor 	June 2023
Contract extensions	Good 	Good 	Minor 	April 2023
ICT risk related reviews				
IT asset management	Satisfactory 	Satisfactory 	Moderate 	September 2022
IT access controls	Satisfactory 	Satisfactory 	Moderate 	November 2022
Cyber security (NNC hosted systems)	Satisfactory 	Satisfactory 	Moderate 	November 2022

4.5 Audit outcomes have been reported to the Audit and Governance Committee during the 2022/23 financial year.

Implementation of agreed management actions

4.6 Internal Audit follow up on progress made against all agreed actions arising from completed assignments to ensure that they have been fully and promptly implemented. Internal Audit trace follow up action on a regular basis and report updates at every Audit and Governance Committee meeting.

4.7 A total of 123 agreed actions have been implemented by officers during 2022/23, which represents 71% of the actions which were due for implementation.

4.8 Details of the implementation rate for the agreed management actions during 2022/23 are provided in Table 4, as at 31st March 2023.

Table 4 - Implementation of agreed management actions due in 2022/23:

	'High' priority	'Medium' priority	'Low' priority	Total
Agreed and implemented	34	70	19	123 (71%)
Agreed and due within last 3 months , but not implemented	-	21	9	30 (17%)
Agreed and due over 3 months ago , but not implemented	2	17	1	20 (12%)
Total	36	108	29	173 (100%)
Agreed and not yet due for implementation	26	68	18	112

5. Internal Audit contribution and performance

Performance

- 5.1 It is important that Internal Audit demonstrates its value to the organisation. The service provides assurance to management and Members via its programme of work and also offers constructive support and advice to assist the Council in new areas of work.
- 5.2 Since 1st April 2022, the Council's internal audit service has been delivered by an in-house team. During this year, a number of successful recruitment campaigns have resulted in the appointment of auditors from a variety of backgrounds which will serve to strengthen the depth and breadth of the team. The team have built effective working relationships with service areas and seek to continue to build upon the positive feedback and reputation built to date.
- 5.3 In April 2023, the Internal Audit service had issued draft or final reports on approximately **93%** of the in-house assignments from the 2022/23 Audit Plan. Some audit reports remain outstanding at the time of reporting, with delays on receiving audit reports on hosted financial systems, as acknowledged in the limitations to the annual opinion. The outcomes of all remaining assignments will be reported to the Audit and Governance Committee once finalised and it is the opinion of the Chief Internal Auditor that there is sufficient coverage to inform the opinion within this report (with some specific limitations noted). Delivery against the Audit Plan has been reported to the Audit and Governance Committee throughout the financial year.
- 5.4 In order to seek feedback on the quality of the internal audit work, customer satisfaction surveys are issued following the conclusion of audit assignments. The feedback received on audits delivered during the 2022/23 year is summarised in table 5, and shows that all feedback received rated the elements of the service as either 'good' or 'outstanding'. The quality of reporting was noted as receiving particularly high feedback in 2022/23, with 60% of respondents rating the reports as of 'outstanding' quality.

Table 5 – Customer satisfaction survey results

Aspects of audit assignments	Outstanding	Good	Satisfactory	Poor
Design of assignment	20%	80%	-	-
Communication during assignments	50%	50%	-	-
Quality of reporting	60%	40%	-	-
Quality of recommendations	40%	60%	-	-

Internal Audit contribution in wider areas

- 5.5 Key additional areas of Internal Audit contribution to the Council in 2022/23 are set out in Table 6:

Table 6 – Internal Audit contribution

Area of Activity	Benefit to the Council
Providing independent advice and guidance on risk management and embedding of the risk management framework and registers.	Embedding a risk management culture and seeking to continue to develop the organisation's risk maturity. This also gives Internal Audit an insight into the emerging risks identified and areas where assurance is needed.
Attending Corporate Leadership Team and Directorate Management Team meetings with updates on audit activity and findings and reminders on risk management.	To raise the profile of audit, assurance and risk management across the organisation; and making internal audit accessible to all.
Sharing advice and fraud alerts.	Pro-active counter fraud support and learning from other authorities.
Maintaining a fraud reporting mailbox to enable concerns to be raised directly with Internal Audit.	Supporting the Council in its Counter Fraud strategy and reinforcing a zero-tolerance culture.
Support for the development on new processes and systems - providing "critical friend" advice to ensure that effective controls are built in at the outset.	Supporting the Council to strengthen its control environment at the earliest opportunity.
Maintaining good working relationships with External Audit.	Maximising value of audit resources.
Ad hoc advice and assistance.	Assistance with ad-hoc queries and advice. Raising the profile of Internal Audit with service leads to increase the effectiveness of the service.
Leading on the use of the NFI Fraud Hub and gaining the Council access to an NFI pilot exercise for social housing fraud matches.	Delivering savings through identifying fraud/error in real time data matching.

Professional Standards

- 5.6 The Public Sector Internal Audit Standards (PSIAS) were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) from April 2013. The standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.
- 5.7 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.
- 5.8 From 1st April 2022, the Internal Audit service has been delivered in house and a Quality and Improvement Plan is overseen by the current Chief Internal Auditor to support ongoing development, in line with the Standards. Assessment against the Standards will be embedded in the delivery of the service and ongoing development work. An external assessment must be completed at least every five years and the timing of the first external assessment will be agreed with the S151 Officer and Chair of the Audit and Governance Committee. The Institute of Internal Auditors are currently conducting a review of Standards with a view to introducing new Global Internal Audit Standards, which may introduce some changes to the requirements. The approach to external assessments should be informed by the outcome of this review.
- 5.9 The Quality and Improvement Plan for the Internal Audit team for the year ahead includes developing work on a Data Analytics Strategy for the audit service; raising the profile of the Internal Audit service; and enforcing consistent application of latest, updated templates for capturing audit fieldwork and findings.
- 5.10 The Chief Internal Auditor can confirm that there has been no evidence of impairment of the independence of the Internal Audit team during 2022/23 and no auditors have reviewed systems/controls which they have been responsible for delivering. Every member of the Internal Audit team completes an annual declaration of any interests which could present a conflict of interest and confirmation of acceptance of the code of ethics.

6. Investigation activity

- 6.1 The Counter Fraud team, led by the Chief Internal Auditor, are set up to receive and handle referrals regarding allegations of fraud, misconduct and irregularities via a number of channels. There is a fraud reporting mailbox available to internal and external stakeholders, in addition to the whistleblowing procedures and general service referrals.
- 6.2 All referrals are logged, assessed and allocated to the relevant party for investigation, where appropriate. Included in Table 7 is a summary of referral activity within the service during the financial year to date. Whilst investigations are progressing, it is not appropriate for further details of allegations to be shared at the risk of jeopardising formal investigation outcomes.

Table 7 – Investigation activity in 2022/23

Description	Number	Comments
Referrals received in 2022/23	76	
Breakdown of referral type:		
Blue badge	10	Referrals received via dedicated mailbox, service areas and internal intelligence.
Housing	13	
Single person discount	35	
NPRF	5	
Data breach	1	
CTS	1	
Universal Credit/ Benefits	9	
Staff time	1	
Parking	1	
Referrals closed at time of reporting	66	
Breakdown of outcomes:		
Referred to Department of Work and Pensions (DWP)	8	
Blue badge cancelled / withdrawn	1	
Council Tax Support cancelled	1	Due to error, rather than fraud
Single Person Discount cancelled	7	Total annual value of £2,678.80
Single Person Discount review letter sent	6	
Referral to housing association	9	
Action Fraud referral	1	
Referred to another council	3	
No further action – insufficient evidence to pursue further	30	-

Limitations inherent to the Internal Audit'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 we are not aware of because they did not form part of our agreed annual 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 the Audit and Governance Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our 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

Our assessment of controls relating to the areas audited is for the period 1st April 2022 to 31st March 2023. 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.

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.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we 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, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.