



ANNUAL INTERNAL AUDIT OPINION

2022 / 2023

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INTRODUCTION

The requirement for an Internal Audit function in Local Government is detailed within the Accounts and Audit (England) Regulations 2015 and the Local Government Act 1972. The Regulations state that a relevant body 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.**

Similarly, Internal Audit are required to follow proper practices. These are laid down for all organisations in the International Professional Practices Framework (IPPF) – see Figure 1. For Internal Audit services located in the public sector, these are set out within the Public Sector Internal Audit Standards (PSIAS).



Figure 1: Internal Audit – International Standards

The role of Internal Audit is defined as:

- **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.**

Within the PSIAS, the Chief Audit Executive (CAE)¹ must:

- **Produce an annual report that can be used to inform the Annual Governance Statement, which forms part of the Council's accounts;**
- **Include an opinion on the overall adequacy of the governance, risk and control framework;**
- **A summary of the work from which the opinion is derived and a statement on conformance with the PSIAS.**

This report, the Annual Audit Opinion, fulfils these requirements.

PCC is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a key role in advising the Council that these arrangements are in place and operating effectively. Acknowledgement of Internal Audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of PCC's objectives.

¹ The Chief Audit Executive at Peterborough City Council is the Chief Internal Auditor, who reports to the Director of Corporate Services and S.151 Officer.

ARRIVING AT AN AUDIT OPINION

Background

The opinion is from works carried out by Internal Audit during the year, as part of the Internal Audit Plan. The Internal Audit Plan was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control. We have conducted our audits both in accordance PSIAS and our own internal quality assurance systems. To enable effective outcomes, the activities cover:

- Assurance. Our work involves assessing how well the systems and processes are designed and working; and
- Consultancy activities. Helping to improve those systems and processes where necessary.

Our opinion is limited to the work carried out by Internal Audit but, where possible, we have considered the work of other assurance providers, such as External Audit.

Risk Based Planning and Our Audit Reviews

A risk based approach is used to develop the Internal Audit Annual Plan, allowing us to direct resources at areas key to the organisation's success and to provide an opinion on the control environment as a whole. In an ever changing risk and control environment, it is important that audit plans can adapt quickly to the needs of the Council, and this has been particularly important this year. Each audit job also uses risk assessment to ensure that suitable audit time and resources are devoted to the more significant areas. Our approach gives precedence to areas assessed as high risk, although we aim to provide coverage over a wide range of activities, as listed below, to ensure our opinion is comprehensive.

- Corporate Governance
- Risk Management
- Financial Governance
- Procurement and Contract Management
- People Management
- Programme and Project Management
- Corporate Performance Management
- ICT and Information Governance
- Asset Management
- Business Continuity; Emergency Planning and Health and Safety
- Safeguarding
- Climate Change
- Schools
- Anti-Fraud Culture

Key elements to each internal audit review are to look at the control and risk environment by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to establish an opinion on how well

the control framework has been designed to mitigate identified risk, and whether there are any gaps in control. However, controls are not always complied with which in itself will increase risk, so the audit also needs to ascertain the extent to which the controls are operating in practice.

Where appropriate, each report we issue during the year is given an overall opinion, as shown in the table below.

Certain pieces of work have not generally resulted in a formal audit report with an opinion – such as consultancy work, grant reviews and involvement in working groups. The process for consultancy has been reviewed during the year and where possible an audit opinion is now being applied resulting in some activities having an opinion applied. Where certification of grant work has been undertaken this should indicate that at the point of approval, information being submitted to external organisation meets required criteria.

The assessment from each report, along with our consideration of other audit work, is used to formulate the overall Opinion.

Opinion / Assurance	Description
SUBSTANTIAL	The internal control system is well designed to meet objectives and address relevant risks, and key controls are consistently applied. There is some scope to improve the design of, or compliance with, the control framework in order to increase efficiency and effectiveness.
REASONABLE	The internal control system is generally sound but there are some weaknesses in the design of controls and / or the inconsistent application of controls. Opportunities exist to strengthen the control framework and mitigate further against potential risks.
LIMITED	The internal control system is poorly designed and / or there is significant non-compliance with controls, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.
NO	There are significant weaknesses in the design of the internal control system, and there is consistent non-compliance with those controls that exist. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.

RECOMMENDATION GRADES	
Grade	Description

CRITICAL	<p>Fundamental control weakness that jeopardises the complete operation of the service.</p> <p>TO BE IMPLEMENTED IMMEDIATELY.</p>
HIGH	<p>Major control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.</p> <p>To be implemented as a matter of priority.</p>
MEDIUM	<p>Moderate control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority.</p> <p>To be implemented at the first opportunity.</p>
LOW	<p>Minor control weakness, which, if corrected, will enhance control procedures that are already relatively robust.</p> <p>To be implemented as soon as reasonably practical.</p>

OPINION 2022 / 2023

As Chief Internal Auditor, in line with Public Sector Internal Audit Standards and prior best practice, I am required to provide an opinion on the overall adequacy and effectiveness of the Council's control environment. I have undertaken the following in order to form a basis for providing my assurance:

- Assessed the quantity and coverage of internal audit work against the 2022 / 2023 internal audit plan;
- Reviewed the reports from the reviews undertaken during the year by Internal Audit and other assurance providers where appropriate;
- Considered any significant actions not accepted by management and the consequent risks;
- Assessed the status of actions identified as not implemented as part of Internal Audit follow up reviews and subsequent progress tracking;
- Considered the effects of significant changes in the Councils objectives or systems and the requirement for Internal Audit involvement;
- Reviewed and considered matters arising from reports to Council committees;
- The resources available at my disposal and whether restricted etc.; and
- Considered whether there were any limitations which may have been placed on the scope of Internal Audit.

I am required to provide an opinion on Governance, Risk Management and Internal Control. While post pandemic works to a certain degree has continued to have an effect on the quantity and coverage of internal audit reviews of governance and internal controls and additional draw on our limited time resources to oversee an increased levels of grants receivable, it is considered that sufficient work has been completed during the year to arrive at this opinion.

Following consideration of the above I am able to provide the following Opinion for 2022 / 2023:

*I am satisfied that utilising assurance from a range of internal and external sources, together with the coverage of internal audit work undertaken allows me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, control and governance processes. **In my opinion, the Council has adequate systems of internal control in place to manage the achievement of its objectives.** In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes. Gaps identified are referred to separately within the Annual Governance Statement. Resourcing remains an important but ongoing issue to address in order to enable greater coverage and reliance on our works rather than that of third parties.*

Notwithstanding my overall opinion, Internal Audit's work identified a number of opportunities for improving control procedures which management has accepted and are documented in each individual audit report.

BASIS OF ANNUAL OPINION

Audit Coverage

Detailed summary of our activities are set in **Appendix B**. The key messages from our works demonstrate:

- A reduction in the levels of audits been delivered. There are a number of reasons for that which are documented at various points in the report. Resourcing remains an issue and despite numerous attempts for permanent replacement this has not been able to be achieved. Furthermore the agency market appears to be depressed.
- There has been increased coverage of grant claims received by the Council requiring certification.

AUDIT ASSURANCE						
Assurance Levels	Numbers			%		
	20/21	21/22	22/23	20/21	21/22	22/23
Substantial	0	1	1	0	5	0
Reasonable	13	15	4	87	73	43
Limited	2	7	4	13	22	57
No	0	0	0	0	0	0
	15	23	9	100	100	100
Certified	10	13	30			
Consultancy	22	10	12			
	32	23	51			

RECOMMENDATIONS MADE			
	Numbers		
	2020/21	2021/22	2022/3
Low	11	27	5
Medium	28	59	19
High	9	26	12
Critical	0	0	0
	48	112	36

There are number of jobs in progress, which have not been agreed prior to issue of this opinion statement.

Limitations of Scope and Responsibilities

PSIAS states that the CAE should disclose any impairments or restrictions to the scope of Internal Audit work. Our Internal Audit Charter sets out our remit and authority to have full, free and unrestricted access to any of the organisation's records, assets and people. This includes access to organisations where council data is processed as part of a contractual arrangement.

In line with the PSIAS, we have a process for team members to declare any interests that may impact on the impartiality of our work. I can confirm that all declarations have been made as necessary, and no conflicts have occurred during 2022 / 2023 that have impaired the work carried out within the Team.

Where the CAE has roles or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity. The Audit Charter states that, should Internal Audit carry out an audit in those areas, the work will be quality assured independently from the CAE. The following issues were identified and mitigated in year:

- The CAE manages the Insurance and Investigations teams. No specific audits were undertaken in those areas. In year, the CAE was involved in the retender for the Insurance contract, together with overseeing the National Fraud Initiative, liaison with DWP, and revisiting fraud policies.
- Stage 2 Corporate Complaints reviews (linked with the Investigations Team) were repositioned in February 2023. No audits have been undertaken in this area.

- Risk Management oversight was repositioned in October 2022. No audits have been undertaken in this area since, although the CAE retains membership of the Risk Management Board.
- The CAE is a reserve approver for payments from the Council's bank accounts, primarily set up as a result of business-critical needs during the pandemic. No requests were received in 2022 / 2023.
- Peterborough Limited. The CAE was appointed as a Director to the Board of Peterborough Limited in February 2023. No audits to date. One Board took place at the end of March 2023.
- The CAE undertook the role of s.151 Officer for a brief period of time in September 2022 during a period of annual leave. Restructures within Finance has established two Deputy s.151 Officer roles which should mitigate the need for this in the future.
- Annual Governance Statement. Preparation of the 2021 / 2022 and the 2022 / 2023

Internal Audit has prepared the Annual Report and undertaken a programme of work agreed by the Council's senior management and approved by the Audit Committee subject to the limitations outlined below:

Opinion

- The Opinion is based, primarily on work undertaken as part of the Audit Plan. Each audit assignment undertaken addressed the control objectives agreed with the relevant, responsible managers.
- There may be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work or were not brought to our attention. As a consequence, the Audit Committee should be aware that the opinion might have differed if our programme of work, or the scope of individual assignments 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 judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls and unforeseeable circumstances.

Overlapping Works

- Our assessment of the Council's control framework is based on completed audit work up to 31 March 2023. In a small number of cases the finalisation of audits has been delayed the outcome of this work will be considered for the 2023 / 2024 audit opinion.
- This 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, regulatory requirements or other factors; and the degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Audit

- It is the responsibility of management to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or 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 endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected, additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our work should not be relied upon to disclose all fraud or other irregularities that might exist.

Resource Availability

Internal Audit is an in house team with an establishment of 6.1 full time equivalent staff (FTE).

	No. of posts	Planned	Total in post for 2022 / 23	Audit Work PCC	Non-Audit Work
	Posts	FTE	FTE	FTE	FTE
Chief Internal Auditor	1.00	1.00	1.00	0.50	0.50
Group Auditor	2.00	1.60	1.40	1.30	0.10
Principal Auditor	1.00	0.50	0.40	0.40	-
Senior Auditor	2.00	2.00	0.50	0.50	-
Auditor	1.00	1.00	1.00	1.0	-
TOTAL	7.00	6.10	4.30		

During 2022 / 2023, a number of changes took place to our resources which impacting on delivery, including:

- Senior Auditor posts. Active attempts have been made to recruit into the two vacancies which were created for differing reasons. 3 attempts have been made to recruit permanent staff. The quality of applications did not meet minimum requirements on 2 occasions. One appointment was made and they started in 2023. Supplementary cover was also sought from the agency market. This proved also to be a depressed market and it was not until late in 2022 / 2023 that a successful appointment was made. There are time limitations on the length of agency cover so alternative arrangements need to be looked at. Conversations have been held with other Councils in relation to resources and they are experiencing similar shortages. During 2023 a focus will be to look at developing graduates and trainees. While not a quick fix, it will look to future proof the service.
- Chief Internal Auditor post. Moves were made to realign a number of activities e.g. Corporate Complaints and Risk Management which were taking up increasing amounts of time. However, due to long term sickness and staff leaving, a greater volume of time was spent on the Investigations Team for the last quarter of the year.

Key elements from the works highlight that of the days completed in year:

- The initial plans set aside a delivery of **760** days. A total of **579** days of audit activity was provided
- 181** days on grants
- 201** days on consultancy / special investigations
- 56** days lost in year for sickness

Recommendations

Agreed Actions are in progress of being followed but the results not yet received to be incorporated fully in the report.

	Critical	High	Medium	Low	Total	%
Recommendations Agreed	0	13	30	7	20	
Implemented	0	7	22	3	32	64
In progress	0	1	1	0	2	4
Alternative actions taken	0	4	1	1	6	12
Not implemented	0	1	6	3	10	20

Awaiting Response	0	16	18	3	37	
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Limited and No Assurance Reports

Not all of our audits will establish positive results / outcomes. 4 reports, set out in **Appendix C**, are provided for Members to highlight the issues within those systems namely:

- NNDR
- PCI Compliance
- Business Continuity
- Mayors Charity

QUALITY ASSURANCE

A quality assurance process is in place to ensure that audit work is conducted to Public Sector Internal Audit Standards (PSIAS) and that the opinions provided for individual assignments are supported by sufficient evidence. Under the standards the Chief Audit Executive is obliged to report on the outcome of, and any issues arising from, those quality assurance arrangements.

Every five years audit teams are subject to an external inspection to assess compliance with the PSIAS, and where appropriate identify area for further development. At our previous inspection, PCC met those standards and our next 5-yearly inspection will be scheduled shortly. The CIA undertook a peer review of Cambridgeshire County Council Internal Audit Service in 2022. A reciprocal arrangement has been proposed (due to the financial costs which are involved which each section does not have the budget for).

Other sources of evidence for the Audit Team to assess and report on its quality included:

- Self-assessment against the five principles contained in the updated CIPFA document “The Role of the Head of Internal Audit” (2019) demonstrates that we comply with each of the principles (**Appendix E**).
- Every assignment is subject to supervision and any common issues identified are discussed at team meetings.

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