



# ANNUAL INTERNAL AUDIT OPINION

## 2023 / 2024

### INTRODUCTION

#### ARRIVING AT AN OPINION

- Background
- Risk Based Planning (Links to Assurance Framework areas)

#### OPINION 2023/ 2024

#### BASIS OF AUDIT OPINION

- Audit Coverage
- Limitations of Scope and Responsibilities
- Resource Availability
- Recommendations
- Limited / No Assurance Reports

#### QUALITY ASSURANCE

#### APPENDICES

B	Internal Audit Coverage (Detailed)
C	Limited / No Assurance Reports
D	Assurance Framework
E	Standards

## **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)<sup>1</sup> 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.

<sup>1</sup> 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 formed 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 some consultancy work, grant reviews and involvement in working groups. However, where possible an audit opinion is applied for consultancy 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	Fundamental control weakness that jeopardises the complete operation of the service. <b>TO BE IMPLEMENTED IMMEDIATELY.</b>
HIGH	Major control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. <b>To be implemented as a matter of priority.</b>
MEDIUM	Moderate control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. <b>To be implemented at the first opportunity.</b>
LOW	Minor control weakness, which, if corrected, will enhance control procedures that are already relatively robust. <b>To be implemented as soon as reasonably practical.</b>

## **OPINION 2023 / 2024**

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 2023 / 2024 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 resourcing issues have 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 grants and a complicated investigation review, 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 2023 / 2024:

*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 have 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 replacements this has not been able to be successfully achieved during the year. Similarly due to an increased number of days lost to long term sickness this has also had an impact on the resourcing levels available to deliver the plan.
- There has been increased amount of time required to undertake investigatory work due to one case that was labour intensive.
- Coverage of grant claims received by the Council requiring certification continues to be a demand on resources.

<b>AUDIT ASSURANCE</b>						
<b>Assurance Levels</b>	<b>Numbers</b>			<b>%</b>		
	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>
Substantial	1	1	1	5	0	12
Reasonable	15	4	5	73	43	63
Limited	7	4	2	22	57	25
No	0	0	0	0	0	0
	<b>23</b>	<b>9</b>	<b>8</b>	<b>100</b>	<b>100</b>	<b>100</b>
Certified	13	30	29			
Consultancy	10	12	7			
	<b>23</b>	<b>51</b>	<b>32</b>			

<b>RECOMMENDATIONS MADE</b>			
	<b>Numbers</b>		
	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>
Low	27	5	11
Medium	59	19	32
High	26	12	41
Critical	0	0	0
	<b>112</b>	<b>36</b>	<b>84</b>

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 2023 / 2024 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 overseeing the National Fraud Initiative, liaison with DWP, and revisiting fraud policies.
- The CAE is a member of the Risk Management Board Risk and has been supporting the review and production of the new risk management strategy. No audits have been undertaken in this area to enable the new strategy to be implemented.
- 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 2023 / 2024.
- Peterborough Limited. The CAE was appointed as a Director to the Board of Peterborough Limited in February 2023. Regular Board meetings are attended. The Audit Committee instructed that the internal audit team could not undertake any audits in this area due to the CAE's conflict of interest. RSM was appointed to undertake a business review of Peterborough Limited as a result, at a charge to the internal audit's budget. The report is presently in draft.
- Annual Governance Statement for 2022/23 was drafted by Internal Audit in revised format. This was circulated to the Corporate Leadership Team for challenge / updates and referred to Audit Committee on 24 July 2023.
- Annual Governance Statement 2022/23 - Progress report. Internal Audit reviewed progress against significant actions, which was reported to CLT and Audit Committee 29 January 2024
- Annual Governance Statement 2023/24 - Preparation of Directors Self-Assessment Survey (e-Forms) as part of year end analysis / assurance requirements.

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 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 2024. In a small number of cases the finalisation of audits has been delayed the outcome of this work will be considered for the 2024 / 2025 audit opinion, for example the ERP Payroll and HR implementation project that is due to go live in July 2024.



- 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 2023 / 24	Audit Work PCC	Non-Audit Work
	Posts	FTE	FTE	FTE	FTE
Chief Internal Auditor	1.00	1.00	0.83	0.46	0.37
Group Auditor	2.00	1.60	1.48	1.38	0.10
Principal Auditor	1.00	0.50	0.45	0.40	-
Senior Auditor	2.00	1.70	0.88	1.00	-
Auditor	1.00	1.00	1.00	0.98	0.02
<b>TOTAL</b>	<b>7.00</b>	<b>5.80</b>	<b>4.64</b>		

During 2023 / 2024, 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 and have been a long standing issue. Two attempts have been made to recruit permanent staff which follow on from 3 attempts in the previous financial year. One appointment was made and an individual started in May 2023 but due to personal reasons ceased employment in November. Supplementary cover was also continued from the agency market but only until September due time limitations on the length of agency cover permitted by the business. As a result of the absence of key personnel and the quality of applications not meeting minimum requirements on 1 occasion, it was not until March 2024 that successful appointments were made to the posts. The audit staff are expected to be in position during July 24.
- As previously reported, due to the conflict of interests of the CAE with regards to Peterborough Limited a contract was agreed with RSM to undertake audit activities in the business to mitigate any conflicts of interests. Approximately 45 audit days was utilised for this purpose. Due to the problems experienced in recruitment RSM was approached to undertake three further reviews, Treasury Management, Programme Boards and Performance Management. Due to the

requirement for a separate contract and procurement delays the contract was not finalised in time for the audit work to be undertaken in 2023/24. The work has therefore rolled into 2024/25 and dates have been programmed in for the reviews to commence.

- During 2024/25 a focus will be to look at developing graduates and trainees subject to budget restrictions. Whilst not a quick fix, it will look to future proof the service in terms of succession planning and business resilience.
- Chief Internal Auditor post. Due to absence from the organisation a reduced number of days have been available in the year and where possible the investigations team has been supported by the Group Auditors, which has reduced direct days in the audit plan. Similarly, due to long term sickness in the investigations team, 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 plan set aside a delivery of **844** days. A total of **690** days of audit activity was provided, which excludes the days delivered by RSM of approximately **45** days.
- **93** days on grants.
- **204** days on consultancy / special investigations / NFI.
- **104** days have been lost in year due to sickness which has affected the delivery of audit days.

## 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	4	9	6	19	
Implemented	0	9	8	5	22	81
In progress	0	1	1	1	3	11
Alternative actions taken	0	0	1	0	1	4
Not implemented	0	1	0	0	1	4

Awaiting Response	0	30	13	8	51	
-------------------	---	----	----	---	----	--

## Limited and No Assurance Reports

Not all of our audits will establish positive results / outcomes. 2 reports, set out in Appendix C, are provided for Members to highlight the issues within those systems namely:

- Mayor of Peterborough's Charity Fund
- Climate Change

## 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 during 2024/25. 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).

New PSIAS requirements are due to be introduced from January 2025 and guidance is presently being shared on what organisations will need to do to enable them to be achieved. Whilst the team can be assessed on the 'old' standards prior to this time the view is that our improvement action plan needs to incorporate the new standards moving forward. The proposed approach is therefore to complete a full self assessment including the new standards and to present any emerging improvement plan at the November 2025 Audit Committee.

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.
- Training - Continuing professional development is a key aspect of the quality assurance programme, to ensure staff have the skills to carry out their responsibilities. There is a limited budget to purchase formal training, and we utilise free webinars, network events and team meetings to deliver training. Staff are also encouraged to carry out their own reading and research.
- With the increased use of Artificial intelligence (AI) the audit profession is exploring how this can be used to benefit the delivery of audit services as well as the use of within organisations along with associated risks. This will continue to be explored during 2024/25 and will be included in the improvement plan.

This page is intentionally left blank