



ANNUAL REPORT OF INTERNAL AUDIT

2023/24

Date: July 2024



1. BACKGROUND

- 1.1 The Public Sector Internal Audit Standards (the Standards) require the Head of Internal Audit to provide an annual Internal Audit Opinion and report that can be used by the organisation to inform its Annual Governance Statement.
- 1.2 The Standards specify that the annual report must contain:
- An Internal Audit opinion on the overall adequacy and effectiveness of the Council's governance, risk management and control framework (i.e. the control environment);
 - A summary of the audit work (including organisational knowledge) from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
 - A statement of the extent of conformance with the Standards including progress against the improvement plan arising from any external assessments.

2. INTERNAL AUDIT OPINION 2023/24

- 2.1 The Head of Internal Audit's overall opinion on the Council's system of internal control is that:

Reasonable assurance can be given that there is an adequate and effective governance, risk and control framework in place, designed to meet the organisation's objectives.

All of the 10 graded assignments completed in 2023/24 resulted in an opinion of either Substantial or Reasonable assurance.

The progress made by management in implementing the actions arising from audits has been good. Follow up work completed by Internal Audit has not highlighted any overdue High or Medium priority actions. Implementation of agreed control improvement actions strengthens the organisation's framework of governance, risk management and control.

The Corporate risk register is regularly reviewed and updated, with trend analysis and good oversight by the Audit, Standards and Governance Committee. A stable governance framework is in place, which is deemed to be effective, and no significant weaknesses have been identified in 2023/24.

2.2 A summary of Internal Audit assurance opinions issued in 2023/24 is shown in Table 1 below:

Table 1 – Summary of Internal Audit Opinions in 2023/24

Assurance Area	Substantial	Reasonable	Limited	No
Financial	2	3	0	0
IT	0	1	0	0
Governance & Ethics	0	2	0	0
Strategic & Operational Risks	2	0	0	0
Totals	4	6	0	0

3. REVIEW OF AUDIT COVERAGE

3.1 The Auditor’s Opinion for each assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The table below explains what the opinions mean:

Table 2 – Assurance Categories

Opinion	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

The prioritisation of recommendations made by Internal Audit is based upon an assessment of the level of risk exposure. The Auditor’s Opinion considers the likelihood of corporate/ service objectives not being achieved, and the impact of any failure to achieve objectives. In order that recommendations can be prioritised according to the potential severity of the risk, a traffic light system is used as follows:

Definition of Priority of Recommendations

Priority	Definition
H	Fundamental control weaknesses that present a significant material risk to the function or system objectives and requires immediate attention by Senior Management.
M	Other control weaknesses where there are some controls in place but there are issues with parts of the control that need to be addressed by Management within the area of review.
L	Issues of best practise where some improvement can be made.

3.2 Summary of Internal Audit Work

Table 3 details the assurance levels resulting from all audits completed during the year:

Audit Area	Assurance Opinion
Financial	
Debt Management	Reasonable
Council Tax	Reasonable
Benefits	Substantial
NNDR	Substantial
Treasury Management	Reasonable
IT	
ICT – Cyber Security	Reasonable
Governance & Ethics	
Risk Management	Reasonable
Project Management	Reasonable
Strategic & Operational Risks	
Grants Assurance	Substantial
Follow up reviews	Substantial

Outlined at pages 12 to 19 is a short summary of the findings of each of the audits completed. It should be noted that many of these findings have previously been reported as part of the defined cycle of progress update reports provided to the Committee.

3.3 Critical Friend Review

In addition to the above assurance work, Internal Audit also carried out a critical friend review which focussed on establishing the extent to which key internal controls and procedures are in place ensuring transactions and balances recorded on the General Ledger are robust, that Account Receivable transactions are valid and to provide an indication on the extent to which updating of forecast outturn directly on Tech One by budget managers is progressing. Ensuring adequate controls are in place provides assurance that the general ledger records all financial transactions of the council which is essential as the general ledger supports financial reporting. The scope covered:

- Implementation and adherence to policies and procedures.
- Data from feeder systems - authorisation, completeness, accuracy and validity.

- Amendments by journals - authorisation, completeness, accuracy and validity.
- Suspense accounts are monitored and cleared on a timely basis following authorisation.
- Account reconciliations eg Bank Account.
- Account Receivable controls and procedures are in place to ensure transactions are accurate and valid.
- Effectiveness of budget monitoring arrangements.

The review found the following areas of the system were working well:

- The reconciliation team take steps to investigate unreconciled balances recorded on bank reconciliation statements and where appropriate escalate to management for their consideration.
- There are clear processes in place to ensure that transactions held on feeder systems are downloaded and imported into Tech One.
- Clear procedures are in place to ensure that bank statement entries are downloaded and imported into Tech One on a daily basis.
- Monitoring of progress in reconciling suspense account transactions within account 20060 (Payment & Receipts) is undertaken by the Head of Finance and Customer Services.
- Examples found where cost centre managers updated Tech One with relevant comments following their review of forecast outturn.
- Cost centre managers reviewed open purchase orders to inform their review of forecast outturn.
- Examples found where accountants played an active part in the quarterly forecasting process via meetings held with cost centre managers.

There were areas identified where further improvements are necessary:

- Bank Reconciliation Statements: timely production; internal consistency; reconciling balances; and management review and authorisation.
- Bank statement entries: ensuring they are imported on daily basis and reconciled to the General Ledger
- Completion of Control Account Reconciliations eg Accounts Payable, Accounts Receivable and Payroll
- Monitoring & reporting progress in reconciling suspense accounts for Payments and Grants
- Assigning budgeting and forecasting packs to relevant budget managers
- Updating written procedures

Management were already aware of the above matters, and steps were being taken to address them on a priority basis. An action plan is in place and



progress is being monitored. Internal Audit will be conducting a full audit of this area later in 2024/25 which will assign a level of assurance and confirm the progress made.

3.4 **Adding Value**

Much internal audit work is carried out “behind the scenes” and is demand led but is not always the subject of a formal report. Examples include:

- Governance e.g. assisting with the Annual Governance Statement.
- Risk management.
- Dissemination of information regarding potential fraud cases likely to affect the Council.
- Drawing managers’ attention to specific audit or risk issues.
- Internal audit recommendations: follow up review and advice.
- Day to day audit support and advice for example risk implications arising from proposed changes in controls.
- Networking with audit colleagues in other Councils on professional points of practice.

3.5 **Coverage and resourcing**

As previously reported, the internal audit plan for 2023/24 was curtailed as a result of a high level of staff turnover during the year. Despite this, the level of coverage has increased slightly compared with the previous year, with 10 assurance opinions issued compared with 9 in 2022/23. The Head of Internal Audit is satisfied that sufficient work has been completed to issue a formal opinion for 2023/24. Subject to recruitment to one remaining vacant Auditor post, the resourcing issues have now been addressed and there will be 15 audits completed in 2024/25.

4. QUALITY ASSURANCE AND COMPLIANCE WITH PROFESSIONAL STANDARDS

- 4.1 The Public Sector Internal Audit Standards (the Standards) 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.
- 4.2 The objectives of the Standards are to:
- Define the nature of internal auditing within the 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 evaluation of internal audit performance and to drive improvement planning.
- 4.3 The Standards require that an independent External Quality Assessment (EQA) of the service be completed every 5 years. An EQA has just been completed in May 2024, and the results confirm that the service is operating in **General Conformance to the Standards**. This is the highest of the three available assessment grades. The findings of the external assessment are being used to develop a continuous improvement action plan which will be presented with a new Quality Assurance policy at the next Audit, Governance and Standards Committee meeting.
- 4.4 As part of the EQA a client satisfaction survey was issued and based upon a response from 15 senior client officers and members, there was a 92% positive satisfaction score. Further quality control measures embedded in the service include individual audit reviews and regular Client Officer feedback. All staff work to a given methodology and have access to the internal audit reference material and Charter which are updated regularly to reflect the requirements of the standards and the changing environment that Internal Audit operates in. On-going dialogue will be maintained with the s151 Officer and the Client Officer Group which governs the shared service. The Client Officer Group for the Internal Audit Shared Service comprises all the partners' s151 Officers all whom actively encourage and support the on-going development of the service.

5. ORGANISATION INDEPENDENCE

If independence or objectivity is impaired in fact or appearance, the Head of Internal Audit is required to disclose this. The Head of Internal Audit can confirm that the Internal Audit service is independent and objective, and this is currently demonstrated in a number of ways:

- The Head of Internal Audit reports directly to the s151 officer at all partner organisations in the Shared Service and the equivalent Audit Committee. He also has direct unfettered access to the Heads of Paid Service, Monitoring Officers and Chairs of the Audit Committees.
- Any attempts to unduly influence the scope of audit reviews or the contents of reports will be reported by the Head of Internal Audit to the Head of Paid Service and the Chair of the Audit Committee.
- All officers responsible for internal audit work are required to complete an annual Declaration of Interests form, which is in turn reviewed by the Head of Internal Audit. In the case of the Head of Internal Audit, the form is reviewed by the Director of Corporate Resources (s151 officer) at Worcester City Council. Auditors are required to report any interests that might compromise the impartiality of their professional judgements – or give rise to a perception that this impartiality has been compromised. Any conflicts of interest are avoided when allocating assignments.
- The Audit, Governance and Standards Committee approves any significant consultancy activity included in the Internal Audit Plan.

6. LIMITATIONS INHERENT TO THE WORK OF INTERNAL AUDIT

Internal Audit undertakes a programme of work agreed by the Council's senior managers and approved by the Audit Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant responsible managers. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work, were excluded from the scope of individual internal audit assignments or were not brought to the attention of Internal Audit. As a consequence, the Audit Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

Internal Control

Internal control systems identified during audit assignments, 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, management override of controls, and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time that the audit was completed. In other words, it is a snapshot of the control environment at that time. This 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; 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 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 its work should not be relied upon to disclose all fraud or other irregularities that might exist.

7. SUMMARY OF INTERNAL AUDIT FINDINGS

Audit Area	Assurance Rating	Summary of Findings
Treasury Management	Reasonable	<p>The scope of this review covered:</p> <ul style="list-style-type: none"> • Treasury Management procedures/strategy and reporting. • Borrowings and investments. • Treasury reconciliations. • Cash flow management. <p>This review did not cover the rationale for investment/borrowing decisions as this would be based on interest rates and risks at the time the borrowing/investment was made.</p> <p>The review found the following areas of the system were working well:</p> <ul style="list-style-type: none"> • Interest rates are calculated correctly. • Approvals are sought and given for deals. • Treasury Management strategies are comprehensive and up to date. • Data between working sheets, deals and the TechOne system are reconciled and accurate. <p>It was found that investment limits had been potentially exceeded between Bromsgrove and Redditch Authorities in one case. Management have agreed to revise the treasury management strategy for both Authorities to introduce a higher limit so that this issue does not recur.</p>

Audit Area	Assurance Rating	Summary of Findings
Council Tax	Reasonable	<p>This review has been undertaken to provide assurance that:</p> <ul style="list-style-type: none"> • Previous internal audit recommendations have been implemented. • Procedures for capturing and processing Council Tax information, including the setting up of new customer accounts and timely and accurate billing. • The application of discounts and exemptions on properties, and the respective billing amounts – including the 2022 Energy Rebate Scheme were being evidenced, applied, and monitored. • Processing of payments and refunds follows the adopted procedures. • The correct protocol was being used for the reminder process. • User profiling was managed to provide only relevant access to data. <p>This review did not cover:</p> <ul style="list-style-type: none"> • Recovery arrangements for non-payment i.e., summons onwards. • Write offs and associated procedures. • Performance monitoring <p>The review found that management and application of Energy Rebate Scheme had worked well. Overall, processing was found to be managed effectively and within a timely fashion.</p> <p>Now that the economy is recovering from the pandemic, the recommendation to incorporate into the service business plan a clear policy as to how the Council will deal with aged debt is being managed by Capacity Grid to chase outstanding debt from previous years, helping to maximise income and take timely action when necessary.</p>

Audit Area	Assurance Rating	Summary of Findings
Debt Management	Reasonable	<p>This risk based review was undertaken to provide assurance that debt recovery action takes place for sundry debts. This review did not cover the setting of fees and charges.</p> <p>The review found the following areas of the system were working well:</p> <ul style="list-style-type: none"> • Regular stop lists are sent to Environmental Services in respect of Business Waste, Garden Waste and Cesspools. • Analysis is undertaken of aged Garden Waste debt and presented to Environmental Services for their decision on the recovery action to be taken. • Work is in progress to analyse the aged Business Waste customer debt balances. • Analysis of Bromsgrove Lifeline debt was undertaken that shows balances that are outstanding, recommended for write off and those that require to be cancelled. The information has been presented to Telecare Services Team for their consideration. • Details on Allotment debt balances are sent to Environmental Services. <p>There is scope to broaden and embed aged debt reporting across the organisation and to use it as a performance management tool.</p>

Audit Area	Assurance Rating	Summary of Findings
Benefits	Substantial	<p>The scope of this review covered:</p> <ul style="list-style-type: none"> • Implementation of previous internal audit recommendations. • A review of new and change of circumstance Housing Benefit & Council Tax Support claims for working age and pension age claimants to ensure that backdated claims have been applied correctly, relevant evidence recorded and that processing days are within reasonable timescales. • Compliance with internal processes and external legislation to allow accurate processing of new claims and changes of circumstance focusing on rent allowances, income/allowance information and disregards. <p>This review did not cover:</p> <ul style="list-style-type: none"> • The process of recovery, including the classification of overpayments and its effect on subsidy. • Payments made under the discretionary hardship scheme. • Reconciliations as this will be carried out within the Core Financial Audits. <p>The review found the following areas of the system were working well:</p> <ul style="list-style-type: none"> • Processing of the Council Tax Reduction Scheme claims with good meaningful file notes. • The processing of new claims and changes of circumstance focusing on rent allowances, income/allowance information and disregards. • The speed of processing. <p>Testing identified 1 New Claim for Redditch Borough Council that was not backdated correctly. Management agreed to undertake additional accuracy checks of new claims to make sure they are awarded from the correct date.</p>

Audit Area	Assurance Rating	Summary of Findings
NNDR	Substantial	<p>This review was undertaken to provide assurance on the process of collecting NNDR income via the billing process, and the application and monitoring of reliefs and exemptions on units.</p> <p>The scope included the following areas:</p> <ul style="list-style-type: none"> • Procedures for capturing and processing NNDR information, including the setting up of new customer accounts and timely and accurate billing. • Follow up of previous internal audit recommendations. • Assurance that exemptions, reliefs, and discounts are appropriately evidenced, applied, and monitored. • The processing of payments and refunds in line with adopted procedures. • Assurance that the correct protocol is being followed with regards to the reminder process and appropriate suppression is being managed. • Management of user profiling to provide only relevant access to data. <p>This review did not cover.</p> <ul style="list-style-type: none"> • Recovery for non-payment i.e., summons onwards. • Legislation relating to Covid-19 • Write offs and associated procedures. • Performance monitoring <p>Overall processes for current year NNDR are followed in an accurate and timely manner, correctly administered and all the appropriate procedures are being followed ensuring that income is maximised.</p> <p>There were no formal recommendations required.</p>

Audit Area	Assurance Rating	Summary of Findings
ICT – Cyber Security	Reasonable	<p>This review was undertaken to provide assurance that:</p> <ul style="list-style-type: none"> • In the event of a cyber-attack there is a clear back up strategy in place, robust enough to recover files that are saved on cloud-based systems and back up tapes. • Appropriate preventative measures are taking place through robust training and communication to all staff and Council Members on cyber security. <p>As part of the ongoing improvements to monitor user interaction with Cyber awareness the ICT service has purchased a new training system which enables more cyber training to take place such as phishing / spam exercises.</p> <p>The review identified that Redditch Borough Council is an exemplar in its consideration to proactively monitor its defence to a cyber-attack as the ICT service conducts weekly health checks when it is only required to conduct a penetration health check annually.</p> <p>Redditch Borough Council has a Cyber Security Board in place. Meetings are minuted and used to have discussions around any areas that require improvements within the Councils cyber security arrangements. As well as this there is a regular Q&A session offered to staff where they can ask questions around any Cyber Security related concerns or learning requirements.</p> <p>The review found the following areas were working well:</p> <ul style="list-style-type: none"> • Frequent testing that takes place on the Microsoft Office 365 cloud-based backups, virtual servers' backups, HP Tapes drive back ups and file system backups. • The Council has a valid Public Service Network (PSN) certification. • There is clear communication available to all internal staff about cyber security and training available. • There is a robust control to ensure that all internal staff and third-party users complete cyber security training. There is no access to the system until they have completed it.

Audit Area	Assurance Rating	Summary of Findings
		<p>The review highlighted there is scope to further educate Members of the increasing cyber risk and the need to attend cyber security courses. A more detailed cyber security strategy will also be put in place to further strengthen the council's approach.</p>
Project Management	Reasonable	<p>The objective of this audit was to provide assurance that programme governance is robust with strategies for delivery in adherence with the grant terms and conditions.</p> <p>The scope covered:</p> <ul style="list-style-type: none"> • Project framework, project boards. • Evidence that the Councils are seeking and receiving assurance that the programme delivery and risk including budgets are being managed. • There are robust working practises for documentation capture. • The projects are compliant with the terms and conditions of the grant. • Emerging risks are identified, mitigated, or resolved. <p>The review found the following areas were working well:</p> <ul style="list-style-type: none"> • There was a strong system of documentation capture, with regular reporting. • Project structures were sound, with identification of responsible officers. <p>The termination of the contract with NWEDR and the transition to a new service & management presents significant risks. It is acknowledged that the Councils are in the process of establishing a new structure and service, which will help manage this.</p>

Audit Area	Assurance Rating	Summary of Findings
Risk Management	Reasonable	<p>This review was undertaken to provide assurance that robust systems of risk management are in place with corporate management overview, with a culture of risk management embedded throughout the authority. The review did not cover the assessment and scoring of individual risks.</p> <p>The review found the following areas of the system were working well:</p> <ul style="list-style-type: none"> • Direction, guidance, and leadership from the Section 151 officers to risk champions was consistently praised. • Risk champions acted upon their responsibilities and displayed a desire for successful risk management. • The Audit, Standards and Governance committee is receiving detailed updates from officers. • The embedding of risk management across the council and its services is developing. • There is improved focus within the council towards risk. • There were 119 departmental risks, due to the management of the risk officer board they were reduced to 58 meaningful risks. <p>Further work to embed effective risk management is now needed, and was in progress. This includes establishing clear ownership for risks and actions, and development of an up to date strategy reflecting the Council's changed approach to risk management.</p>
Follow up reviews	Substantial	<p>The progress made by management in implementing the actions arising from audits has been good. Follow up work completed by Internal Audit has not highlighted any overdue High or Medium priority actions. Implementation of agreed control improvement actions strengthens the organisation's framework of governance, risk management and control.</p>