

Audit Committee

27 July 2023



Title	Annual Internal Audit Report & Opinion for 2022/23
Purpose of the report	Punita Talwar, Internal Audit Manager
Report Author	All Wards
Ward(s) Affected	No
Exempt	Not Applicable
Exemption Reason	N/A
Corporate Priority	All Priorities: Community Affordable housing Recovery Environment Service delivery
Recommendations	Committee is asked to: 1. Note the Annual Internal Audit Report for 2022/23. 2. Note the annual audit opinion on the Council's internal control environment, risk management and governance arrangements.
Reason for Recommendation	Not applicable

1. Summary of the report

- 1.1 The Internal Audit Manager at Spelthorne is responsible for delivering an annual audit opinion and report that can be used by the Council to inform and support its annual governance statement. The opinion represents a key source of assurance for the authority, considered by External Audit, the Audit Committee, Corporate Management Team and other stakeholders.
- 1.2 This report seeks to summarise Internal Audit findings and sets out the independent audit opinion for the 2022/23 period. This opinion relates to the Council's systems of internal control, risk management and governance arrangements.

2. Key issues

- 2.1 The purpose, authority and responsibility of the Internal Audit activity is set out in the approved audit charter of November 2022 which highlights

fundamental principles around independence and objectivity. The role of Internal Audit is summarised through its definition and mission statement within the Public Sector Internal Audit Standards (PSIAS).

Mission – To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition - 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

- 2.2 In providing an opinion on the adequacy of the authority's internal control environment, risk management and governance arrangements and assessing the overall level of assurance to be given for 2022/23 , this has been based on the following:
- (a) Written reports and Position Statements of all Internal audit work completed relating to the approved risk-based audit plan for 2022/23. Internal Audit provided assurance across 12 review areas (1 unplanned area). Two review areas did not include a formal audit assurance opinion (overall conclusion) as the work was more advisory focussed whilst still raising recommendations for improvement or drawing out matters for management attention.
 - (b) Matters arising from planned assurance reviews underway and being finalised (2 review areas)
 - (c) Audit advisory and support work
 - (d) Audit follow up exercises undertaken.
 - (e) Other sources of assurance including the Corporate Risk Register and Wider Externalities Risk Assessment
 - (f) Consideration of wider sources of assurance from corporate reviews undertaken by external bodies (for purpose of forming the annual audit opinion much greater reliance has been placed on points a to e)

Annual Audit Opinion

- 2.3 There are not considered to be any impairments or limitations in the scope of internal audit for the 2022/23 financial year that have adversely impacted forming an independent audit opinion. The audit opinion of the Internal Audit Manager for the 2022/23 period is set out below.

Annual Internal Audit Opinion 2022/23

Relevant considerations in undertaking assurance work and producing the annual audit opinion are set out at point 1 below:

(1) Exposure to high impact interlocking risks highlights the ongoing uncertainty and volatility being faced across all sectors of the economy. The significance of wider externalities have continued to exacerbate many of the Council's strategic risks and challenges in delivery of corporate priorities and objectives.

The opinion of the Internal Audit Manager concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control. On balance **reasonable assurance** can be provided across these areas. The Council has many established systems of internal control that are sufficiently designed to effectively manage risks. However, improvements were recommended to address the operation of the control environment where control weaknesses were identified. This included some issues and areas of non-compliance, mostly representing medium priority risks. Scope for improvements to both the design and operation of internal controls in delivering objectives have been raised or recommended in some areas.

Internal Audit have consulted managers (corporate management team, Group Heads and managers) to discuss improvement actions to address risks and enhance the robustness of systems of internal control and governance arrangements. Where actions have been taken to address issues arising from audit work performed, this is acknowledged.

Reasonable Assurance

There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.

Punita Talwar
Internal Audit Manager (Chief Audit Executive, Spelthorne Borough Council)
Chartered Internal Auditor (CMIIA)

May 2023

The annual audit opinion should be considered in conjunction with the key themes and issues arising from Internal Audit's work along with other key assurance sources as this provides greater insight, set out below at paragraph 2.4. Sections 1 to 4 of the table at paragraph 2.4 represent the more critical themes/issues/risk areas and these are also highlighted in the Annual Governance Statement. They are also reflected in the Council's Corporate Risk Register.

More detailed reference to Internal Audit's work for 2022/23 across a range of assurance and wider work categories is included at Appendix 1. Under work category A – Objective assurance assignments for 2022/23, an 'open' or 'closed'

status is recorded against each area. An ‘open’ status is granted where agreed audit recommendations are assessed as outstanding/underway/to be addressed rather than implemented which would denote a ‘closed’ status for the audit.

2.4 Key themes and issues arising from Internal Audit’s work 2022/23

<u>Issues Identified/Risk Implications</u> <u>Relates to 2022/23 Period</u>	<u>Action and status</u>
<p><u>1.Wider Externalities</u></p> <p>The ongoing significance of wider externalities such as the macro-economic environment (elevated inflation, accelerated interest rates and cost of borrowing), and geopolitical uncertainty from the Ukraine war have continued to exacerbate the Council’s financial challenges in delivering corporate priorities, coinciding with rising service pressures in supporting communities during a Cost-of-Living crises. Inevitably, the Council cannot exert control or influence over the direction of these evolving wider externalities and therefore the extent to which it can reduce, control, or mitigate such risks remains limited.</p>	<p><u>Management Action</u></p> <p><i>(i) The broad risk categories significantly impacted by these externalities were prioritized by the Internal Audit Manager for the purpose of reporting on the Council’s risk exposure to wider externalities. These include the Council’s economic prosperity, financial sustainability, and supporting local communities and refugees in the provision of housing need.</i></p> <p><i>(ii)The local mitigation measures and prioritised actions to alleviate the identified risks have been drawn out in the Wider Externalities risk assessment and summary report (reported to the Audit Committee throughout 2022/23). Going forward such analysis will continue to be incorporated into the Strategic (Corporate) Risk Register given externalities underpin understanding around the causes, consequences, and wide implications of many of the Council’s significant risk categories.</i></p>
<p><u>2.Financial Risk</u></p> <p>Wider externalities and other factors continue to present increased financial risk to the Council considering the significance of increased borrowing costs and elevated inflation in delivering a range of strategies and schemes (Housing Delivery programme is a pivotal area), which may lead to a detrimental impact on the communities it serves. Financial risk remains a strategic theme carrying high impact across several risk categories on the Council’s Corporate (strategic) risk register. Ongoing financial challenges and</p>	<p><u>Management Action</u></p> <p><i>Please refer to the Council’s Corporate Risk Register and Risk Action Plan for a range of high-level actions underway in alleviating the ongoing financial challenges. This includes progressing the medium-term financial strategy and efficiency savings plan in addressing anticipated budget deficits for 2024/25 to 2026/27.</i></p>

<p>pressures continue to have a significant impact on the Council's budgetary position and financial sustainability in delivering corporate priorities and services.</p>	
<p><u>3.Commercial Assets</u></p> <p>The post-pandemic landscape, turbulent economic environment and geopolitical situation have presented contributory factors leading to tenancy departures and void periods, with increased void rates during 2022/23 across the Council's commercial investment portfolio.</p> <p>It is acknowledged that sinking fund reserves support the Council's risk management strategy and may be drawn upon to mitigate and reduce the impact of any break clause/ non lease renewal occurrence in managing void periods and income shortfalls.</p> <p>In continuing to fund Council services, robust tenancy management remains key in securing and maximising these vital revenue streams.</p>	<p><u>Management Action</u></p> <p><i>The Council's ongoing management of rental voids and securing new tenants remains pivotal with proposals having been put forward to a prior CPRC in addressing the largest single void with a view to reducing the vacancy rate (previously anticipated rate of approx. 10% by end of June 2023).</i></p> <p><i>The Risk Action Plan in the Corporate Risk Register refers to producing a strategy for the longer-term relationship management of existing tenants occupying commercial properties with a view to reducing associated risks of tenant departures. This action will form part of the new overarching Asset Management Strategy being developed and due to be reported to Corporate Policy & Resources Committee in Autumn 2023.</i></p> <p><i>Wider risk mitigation measures continue for the Council's investment portfolio including plans to extend sinking fund modelling and developing an action plan in addressing the Public Interest Report (PIR) recommendations with a view to driving improved risk management and performance management, to be presented to July Audit Committee and a future Development Sub Committee.</i></p> <p><i>Spelthorne are participating in a review of capital risk mitigation with CIPFA and DLUHC and will pursue any recommendations that may arise.</i></p>
<p><u>4.Recruitment and Retention</u></p> <p>In the context of a challenging and competitive labour market, unsuccessful recruitment and ongoing unfilled vacancies remains</p>	<p><u>Management Action</u></p> <p><i>Refer to the Corporate Risk Register and related risk action plan.</i></p> <p><i>Corporate Establishment Review (2023).</i></p>

<p>an issue for the authority, leading to reduced availability of technical skills and relevant expertise is spread more thinly across Services, as well as increased costs if backfilling posts through employment agencies. Staff shortages further exacerbate workload pressures across teams and may lead to increased staff fatigue / burnout / sickness levels arising.</p>	
<p><u>5.New Schemes implemented at speed.</u></p> <p>In response to the Cost-of-Living crises there have continued to be several government grant schemes and household support funds administered at speed in providing timely financial support to communities. Where there are tight timeframes and high volumes to turnaround, this could present increased risk of erroneous, duplicate and fraudulent transactions (resulting in financial losses and reputational impact), particularly if core internal control processes are not applied and mapped out in advance.</p>	<p><u>Management Action</u></p> <p><i>In continuing to safeguard public funds and the Authority's interests a general guide is available to support Managers in planning for implementation of new/future grant schemes or community support funds (should they arise). It is intended to promote a structured approach and advocates core internal control principles around segregation of duties, authorisation, transparency of decision making, documentary evidence, due diligence.</i></p>
<p><u>6. Corporate insight into organisational culture</u></p> <p>In the context of Whistleblowing, whilst it is recognised that the Council has received only a few whistleblowing concerns in the last few years, the channels through which staff can raise concerns should be better co-ordinated and aligned to provide improved corporate insight into the nature and types of concerns raised. This would help to future-proof systems and processes to form a more accurate picture of any emerging patterns around conduct or behaviours to support any remedial actions.</p>	<p><u>Management Action:</u></p> <p><i>One of the measures proposed in moving this forward includes quarterly meetings between the Council's Monitoring Officer and Human Resources team. These have commenced.</i></p> <p><i>Improved processes may over time, provide the Monitoring Officer and Corporate Management Team with common themes and patterns, to then identify and monitor improvement actions in ascertaining any positive impact.</i></p>
<p><u>7. Health and Safety</u></p> <p>Central reporting, recording and capturing of near-misses, incidents,</p>	<p><u>Management Action:</u></p> <p><i>An action plan with target dates has been produced by the Health and Safety team in addressing the internal audit recommendations</i></p>

<p>accidents, and risk assessments requires improvement across Services. This will support progression of proactive risk management opportunities to minimise and prevent reoccurrence.</p> <p>Where actions have been identified from risk assessments for high-risk areas such as Legionella and asbestos, robust management plans and reporting mechanisms need to be in place to ensure these are completed.</p>	<p><i>around cascading important messages to all staff through the Corporate Risk Management Group which has Group Head representation, organised training for Health and Safety representatives, maintaining a central record to report risk assessments/accidents and incidents/near misses/inspections in line with the Council's Health and Safety Policy and producing further management information reports to drive compliance.</i></p> <p><i>Audit recommendations relating to Health and Safety have also been raised as part of other assurance/ advisory reviews.</i></p>
<p><u>8. Technical expertise and ownership (application systems)</u></p> <p>There has been a reduced level of dedicated resource available for technical and system duties within the Customer Services team (was vacant Systems Administrator post for significant period of time). This team have continued to go through a transitional period and restructure. It is acknowledged that other officers may have stepped in to support critical service delivery, albeit prolonged unstable environments are not conducive to embedding system ownership and accountability. Scope to enhance overall accountability and ownership for another key Council application system has also been identified.</p>	<p><u>Management Action</u></p> <p><i>Customer Services restructure underway/undergone.</i></p> <p><i>A System Administrator has been appointed and is now in post (Customer Services, Academy).</i></p> <p><i>General guidance (recommendations) has been produced by Internal Audit as an aid to support good practice across all Council application systems. This incorporates expected standards or requirements around account management, vendor support, user access review and reporting structures.</i></p>

3. Options analysis and proposal

3.1 There are no options being raised.

4. Financial implications

During 2022/23, a total of 410 suspected fraud referrals were passed to Reigate and Banstead's Counter Fraud team for investigation, with 409 cases reported as reviewed. Overall fraud losses prevented/detected for the financial year 2022/23 amount to £265k (rounded). This incorporates both notional and cashable savings. It is based on notional financial savings/methodology set by the NFI (Cabinet Office) derived from their estimated financial savings/losses to the public purse across each of the high-risk public fraud categories and is broken down in the table below.

Category	Homeless and Prevention based on NFI (Cabinet Office) saving of £3240 per case	Social Housing based on NFI (Cabinet Office) saving of 93,000 per case	Housing Register based on NFI (Cabinet Office) saving of £3240 per case £	Housing Benefits and Council Tax Support (CTS) based on NFI methodology	Council Tax Discount (CTD) based on NFI methodology	Totals
£ Notional savings to the public purse / losses prevented or detected	81,000	93,000	38,880	44,507	7,320	264,706 265,000 rounded
Proportion of notional savings quantified as cashable savings	Nil reported	Nil reported	Nil reported	39,977 - HB 4,529 – CTS	7,320	51,826
Proportion of quantified cashable savings to Spelthorne	Nil reported	Nil reported	Nil reported	39,977 - HB 498 based on 11% for CTS.	805 based on 11% for CTD	41,280
Proportion of annual return figure for 2022/23	30.6%	35.1%	14.6%	16.8%	2.7%	

5. Risk considerations

- 5.1 Please refer to the table under section 2.4 for key themes, issues, and risk implications for the Council, highlighted through the work of Internal Audit (relating to 2022/23) including how these will be addressed or mitigated. Implementation of audit recommendations will reduce risks for the authority and enhance the robustness of the control environment which is acknowledged by the Councils Management Team and the Audit Committee.
- 5.2 Failure to undertake internal audit work to the required professional standards reduces the level of compliance with the mandatory Public Sector Internal Audit Standards (PSIAS). It would also lessen the reliability of assurance provision to the Council regarding the effectiveness of control systems in place and could result in an increase in the Council's annual external audit fee. Whilst External Audit cannot place reliance on the work of Internal Audit, discussion and insight may inform aspects of work programmes.

6. Procurement considerations

- 6.1 There are none being raised as part of this report.

7. Legal considerations

- 7.1 The Public Sector Internal Audit Standards (PSIAS) are mandatory further to the Accounts and Audit (England) Regulations 2011. Production of an annual audit report and annual audit opinion forms a requirement under PSIAS.

8. Other considerations

- 8.1 The refreshed assurance opinion model (overall conclusion for audit assurance engagements) was introduced from January 2023. A separate report advising of this change was included on the March agenda of the Audit Committee which is now due to be presented in July. As Internal audit reporting coincides with the financial year rather than the calendar year, this annual audit report for 2022/23 has for purposes of consistency referred to the equivalent assurance opinion under the new model. For example, where

an audit assignment was granted a 'Some Improvement Needed' rating under the prior model this has now been referred to as 'Reasonable Assurance,' whilst a 'Major Improvement Needed' rating under the prior model has been referred to as 'Limited Assurance'. This can be seen at Appendix 1.

9. Equality and Diversity

- 9.1 During 2022/23, an additional risk category for Equality, Diversity and Inclusivity was included on the Corporate Risk Register, along with a risk improvement action.

10. Sustainability/Climate Change Implications

- 10.1 There is inclusion on the Council's Corporate Risk Register, given that it represents a significant strategic risk category.

11. Timetable for implementation

- 11.1 Implementation of audit recommendations and audit status (open or closed) will continue to be periodically monitored as part of the follow up process.

12. Contact

- 12.1 Punita Talwar, Internal Audit Manager. P.Talwar@splethorne.gov.uk.

Background papers:

Internal audit reports

Internal audit working papers

Correspondence or discussions on risks and controls/issues arising

Audit Advisory and support work

Corporate Risk Register (published)

The Council's risk exposure to Wider Externalities - risk assessment (published)

Counter Fraud Returns

Appendices:

Appendix A – Work areas undertaken by the Internal Audit team relating to 2022/23