

# Audit Committee

9<sup>th</sup> July 2024



<b>Title</b>	Annual Internal Audit Report & Opinion for 2023/24
<b>Purpose of the report</b>	To note
<b>Report Author</b>	Punita Talwar, Internal Audit Manager
<b>Ward(s) Affected</b>	No
<b>Exempt</b>	No
<b>Exemption Reason</b>	Not Applicable
<b>Corporate Priority</b>	All Priorities Community Addressing Housing Need Resilience Environment Services
<b>Recommendations</b>	<b>Committee is asked to:</b>  1. Note the Annual Internal Audit Report for 2023/24. 2. Note the annual audit opinion on the Council's internal control environment, risk management and governance arrangements.
<b>Reason for Recommendation</b>	Not applicable.

## 1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> <li>Internal audit activity provides the Audit Committee and senior management with objective assurance and advice, supporting the strengthening of governance, risk management and control processes, as well as protecting and sustaining organisational value.</li> <li>This is achieved through delivery of an approved risk-</li> </ul>	<ul style="list-style-type: none"> <li>Public Sector Internal Audit Standards (PSIAS) and the revised Global Internal Audit Standards introduced from 2024 require an annual summary report and independent audit opinion to be provided to key stakeholders.</li> <li>The annual audit opinion can be used by the Council to inform and support its annual governance statement (for 2023/24), which</li> </ul>

based audit plan comprising an annual programme of work.	forms part of the Council's financial statement of accounts for publication by the statutory deadline (31.5.2024).
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> <li>• Report on audit findings, recommendations and outcomes of internal audit activity for 2023/24.</li> <li>• Present an overall annual audit opinion for the Council on the effectiveness of its systems of internal control, risk management and governance arrangements. This has been informed primarily from the annual programme of audit and advisory work undertaken, whilst also taking account some wider sources of assurance.</li> </ul>	<ul style="list-style-type: none"> <li>• The Audit Committee and corporate management team to note the annual audit opinion provided for Spelthorne Borough Council, as well as the key themes and issues arising from internal audit activity for the period 2023/24.</li> <li>• Group Heads and Managers to implement agreed audit recommendations or advisory points raised during 2023/24 to ensure risks continue to be managed, which will continue to be monitored.</li> </ul>

1.1 The Audit Manager is responsible for delivering an annual audit opinion for 2023/24 and summary 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 2023/24 period. This opinion relates to the Council's systems of internal control, risk management and governance arrangements.

## 2. Key issues

2.1 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 2023/24, this has been based on the following:

- (a) Written reports and conclusions drawn from all Internal audit work completed relating to the approved risk-based audit plan for 2023/24 and revised programme presented to the Audit Committee in November 2023. Internal Audit provided assurance across 10 review areas relating to the 2023/24 audit plan. Three further assurance reviews relating to the 2022/23 audit plan were also completed during 2023.
- (b) Matters arising from planned assurance reviews underway (2 review areas)

- (c) Audit advisory and support work.
- (d) Audit follow up exercises undertaken.
- (e) The Corporate Risk Register which also takes account of the Council's risk exposure to wider externalities.
- (f) Consideration of wider sources of assurance (for purpose of forming the annual audit opinion greater reliance has however been placed on points a to e).
- (g) Due to the External Audit backlog in auditing the authority's financial statement of accounts in recent years which of course is a national issue across the Local government sector, this has meant that Internal Audit have not been able to consider the wider assurances from External Audit work in forming the annual internal audit opinion for 2023/24.

### **Annual Internal Audit Opinion**

2.2 There are not considered to be any impairments or limitations in the scope of internal audit for the 2023/24 financial year that have adversely impacted forming an independent audit opinion. The audit opinion of the Internal Audit Manager for the 2023/24 period is set out below.

#### **Annual Internal Audit Opinion 2023/24**

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

(1) The ongoing significance of evolving wider externalities have continued to exacerbate many of the Council's strategic risks and challenges in delivery of corporate priorities and objectives. Financial risk represents a common theme carrying high impact across many of the Council's strategic risks, and overlaps with other competing crises and significant pressures, with some reflecting sector wide issues.

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 and the Council has many established systems of internal control. Scope for improvements to both the design and operation of internal controls in effectively managing risks and delivering objectives have been raised or recommended in some areas.

Internal Audit have consulted managers (corporate management team, Group Heads and service 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**

**Chartered Internal Auditor (CMIA). April 2024**

2.3 The annual audit opinion should be considered in conjunction with thematic insights arising from Internal Audit’s work along with other key assurance sources, set out below at paragraph 2.4. Sections 1 to 5 of the table at paragraph 2.4 represent the more critical themes/issues/risk areas for the Council and these are also highlighted as significant matters 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 2023/24 across a range of assurance and wider work categories is included at Appendix 1. It should be noted that these reflect matters that came to the attention of Internal Audit during the review and cannot be regarded as a complete set of all the control weaknesses that exist or all the improvement areas. It remains the responsibility of management to develop and maintain sounds system of internal control, risk management and governance arrangements. Under work category A – Objective assurance assignments for 2023/24, an ‘open’ or ‘closed’ status is recorded against each area. An ‘open’ status is granted where agreed audit recommendations or advisory points are assessed as outstanding/underway/to be addressed rather than implemented which would denote a ‘closed’ status for the audit.

2.4 Thematic insights arising from Internal Audit’s work 2023/24 including the most significant risk areas from the Council’s Corporate Risk Register

<b><u>Issues Identified/Risk Implications</u></b> <b><u>Relates to 2023/24 Period</u></b>	<b><u>Action and status</u></b>
<p><b><u>1.Wider Externalities and competing crises</u></b></p> <p>Exposure to wider externalities and other pressures are continuing to present competing levels of crises. The worsening financial and housing crisis across the local government sector continues to have adverse effects, impacting communities. Consequently, the Council continues to encounter some challenge in the context of delivering corporate priorities. <i>(This is elaborated further in the subsequent paragraph).</i></p> <p>The ongoing significance and impact of wider evolving externalities such as the macro-economic environment (including the knock-on effect of elevated inflation, accelerated interest rates and cost of borrowing over a sustained prior period), and geopolitical tensions have continued to exacerbate the Council’s financial challenges in delivering corporate</p>	<p><b><u>1.Management Action</u></b></p> <p><i>The Corporate Risk Register highlights how the Council’s risk exposure to wider externalities continues to present some adverse impact and ongoing challenges in terms of the Council’s financial sustainability, economic prosperity, Housing Development programme, and provision of housing need. The local mitigation measures and prioritised actions to alleviate the identified risks have been drawn out in the Corporate Risk Register.</i></p>

priorities. These factors coincide with increased service demands to support communities during a continued Cost-of-Living crises, housing crisis and Cost of Doing Business 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 focused around localised measures.

**2.Financial risk**

(i)Financial risk remains a strategic theme carrying high impact across several risk categories on the Council's Corporate risk register. Ongoing financial pressures, challenges and local authority funding constraints (similar to other Councils) continue to have a significant impact on the Council's budgetary position and financial sustainability in delivering corporate priorities and services. A balanced budget has been produced for 2024/25, although additional budgetary challenges from 2026/27 have been identified by Finance and communicated by the Corporate Management Team (if a Fair Funding Review and Business Rates reset happens then).

(ii)In the context of financial risk, externalities and wider factors have continued to significantly affect the financial viability of each housing development scheme project leading to rising overall costs, and risk of adverse financial position of the Council. In responding to this threat, the Council decided to suspend direct delivery of the Housing development programme from mid-September 2023. Options are being explored with a view to minimising the proportion of accumulated capital costs (£10-£15m) to be charged to the Council's Revenue

**2.Management Action**

*(i)Please refer to the Council's Corporate Risk Register for a range of actions underway or planned in alleviating the ongoing financial challenges. This includes progressing the medium-term financial strategy, application of earmarked financial reserves to the Council's budget with forecast over 4 years, quarterly monitoring of the efficiency savings programme and extent of cashable savings target being delivered, and the introduction of zero-base budgeting as part of the 2025/26 budget cycle. A Surrey Wide Financial Resilience Review has been undertaken in 2023/24 to ascertain a holistic County position.*

*(ii)Please refer also to the first management action under category 3 below in terms of progressing a new Development Delivery strategy, which may over time support mitigation of current holding costs being incurred on development sites (once outcomes are delivered on sites).*

budget, with ongoing management of this risk. In addition, holding costs of £1.6m per annum relating to the housing delivery schemes are continuing to be incurred until outcomes are delivered on the sites. These factors continue to present a significant financial impact on the Council's budgetary position.

**3.Housing – Development and Targets**

(i)Further to the Council's decision to suspend direct delivery of the Housing development programme from mid-September 2023, this has/will further impact timelines for delivery of housing schemes and development targets (both affordable and general housing).

(ii) The existing Local Plan is no longer fit for purpose and has become significantly out of date. Various factors have led to significant delays in the examination and adoption of the Local Plan, which are likely to continue to impact on the ability to bring forward the appropriate quantum of housing development. Therefore, preparation and adoption of a New Local Plan to meet future need and strengthen affordable housing policy remains a work in progress.

Due to further pausing of the Local Plan Examination Hearings until Spring 2024, as a result of the decisions made at the Extraordinary Environment and Sustainability Committee on 29.2.24, a number of specific risks and challenges presented include (as identified and reported in the Corporate Risk Register): (a) additional pressure on SBC Local Plan to meet the housing need of other boroughs (b) a lack of certainty around Housing Delivery (c) legal challenge (d)prospect of unsuitable developments (e)

**3.Management Action**

*(i)Subject to Member approval, the Council will be progressing a Development Delivery strategy to accelerate housing outcomes across the sites currently owned by the Council. The new Member driven strategy aims to support robust and timely decision making by applying established criteria to inform and guide decisions relating to future development delivery approaches. This will be further supported by the overarching Asset Management Strategy.*

*(ii) The views of the Environment Agency have been received on the revised Strategic Flood Risk Assessment. In response, the Council is considering whether there is scope to develop some mutually acceptable amendments to address the concerns raised by the EA, whilst still ensuring the future safety of residents. Proposed amendments to the Local Plan will then be put forward to the Planning Inspector to enable him to reach a view on whether the Council is able to re-commence the independent Examination of the draft Local Plan.*

adverse publicity and reputational damage.

**4.Housing –Supply and Demand; Addressing Need and Provision**

(i)Lack of affordable housing supply increases homelessness with increased demand for temporary or social housing. The demand for temporary housing increased significantly over the last year for a variety of reasons and is expected to increase further. The housing crisis is therefore increasing the need to spend on temporary accommodation to support residents, impacting further the ‘financial risk’ theme referred to above under category 2.

(ii)Geopolitical factors continue to present increased demand in supporting refugee communities and consequently managing the provision of suitable and secure housing.

(iii)More asylum seekers have/are presenting to the Council in need of housing support partly due to the increased rate of determination of asylum seeker claims by central government.

**4.Management Action**

*Please refer to the Council’s Corporate Risk Register category 1B. Some examples of how the risks are being managed are referred to below.*

*(i)Quarterly Strategic Action Plan monitoring and review relating to Housing and Homelessness Strategies.*

*Collaborative working with Registered Social Landlords and Partners to pursue delivery of affordable housing need and manage pipeline of units.*

*The Local Authority Housing Fund initiative - LAHF capital grant rounds 1 & 2 are being drawn upon to support provision of temporary accommodation (see below also).*

*(ii) Acquisition of properties to support refugees forms an important strategy that the Council is pursuing. (Partly funded from the Local Authority Housing Fund - LAHF capital grant rounds 1 & 2). This is intended in the longer term to support general housing need.*

*(iii)The Council is lobbying for additional funding support in recognition of the resourcing and financial impact of more asylum seekers presenting in need of housing support.*

**5.Climate Change and Environmental Sustainability**

The adverse impact of Climate Change is already being felt through greater extremes of weather (storms with heavier rainfall and heatwaves). As referred to in the Corporate Risk Register, instances are increasing and likely to continue. Ongoing focus will need to be given to prioritising mitigation measures in managing the significant impact of these risks, as

**5.Management Action**

*The Council are continuing to review its preparedness for Climate Change and the register sets out many examples of risk management strategies currently in place or underway. The Council are continuing to roll out a comprehensive Carbon Literacy training programme to inform and educate individuals, with a view to supporting improved integration of environmental considerations in planning and delivering services.*

well as adaptation to environmental change.

The impact of extreme weather can be fatal (in the summer of 2023 there were 72,000 excess deaths reported in Europe due to the extreme heat and 4500 in the UK in 2022). This also impacts on the economy and puts at risk safety, livelihood, homes, and properties. Actions required by the Council, for example in responding to the recent severe flooding occurrences is seriously draining the Council's resources.

**6. Periodical review of procedural practices and policy frameworks**

Some audit assignments identified scope for updating procedural practices documentation and associated policies. Whilst this may not necessarily be regarded as a priority task in the context of wider service pressures, it remains important that officers have a clearly defined, relevant and current procedural and policy framework within which to operate that encompasses key internal control processes. Organisational or service restructures and staffing changes may result in a transfer or loss of knowledge, and a documented practices framework is also useful to support business continuity arrangements.

**7. Audit Trails and Decision Making**

It was identified that better evidencing to demonstrate officer and management checks being undertaken for some financial systems/wider processes would help to support/reinforce accuracy and validity of data input including where changes are initiated.

There are some systems where certain elements of audit trails were

**6. Management Action**

*During 2023/24 the Council have already identified the need to develop more robust central monitoring mechanisms to ensure that key procedural documentation and policy frameworks are scheduled for timely review and regular reporting.*

*Appendix A incorporates several audit recommendations raised around periodical review and refreshing of procedural practices documentation and associated policies for specific functions audited in 2023/24. In some areas these have been implemented.*

**7. Management Action**

*Appendix A incorporates several audit recommendations around the need for better audit trails in some areas, as well as enhanced transparency to demonstrate relevant stages in supporting officer decision making. These are being taken forward.*



<p>found to be weak or incomplete. For example, demonstrating how a decision has been derived on a housing application submitted should be efficiently integrated into routine practices so that the rationale for decisions and actions are transparent and can be ascertained by someone who has had no prior involvement with the process.</p>	
<p><b><u>8. Corporate Procurement</u></b></p> <p>Whilst an appropriate framework is in place (and has been strengthened since the prior internal audit), the audit identified that requirements need to be re-enforced to all Procuring Officers to ensure adherence to Contract Standing Orders. Compliance monitoring processes across a range of areas also need to be strengthened and embedded to enable prompt identification of issues or trends arising. Contract management processes across various stages of the cycle including the Contracts Register also require enhancements.</p>	<p><b><u>8. Management Action</u></b></p> <p><i>A management action plan was produced during autumn 2023 to take forward the audit recommendations. A progress update was presented to the Audit Committee at the meeting of 30th January 2024 by the former Procurement lead officer including key developments around delivering a comprehensive training programme and continued awareness raising. Some next steps were discussed at that time.</i></p> <p><i>Appendix A incorporates recommendation status advised previously. Due to interim resourcing arrangements in place, the interim Procurement Manager may wish to update the status further of recommendations in due course.</i></p>

### 3. Options analysis and proposal

3.1 There are no options being raised.

### 4. Financial management comments

4.1 During 2023/24, the Audit Manager led on overseeing and coordinating counter fraud measures across the authority in promoting strategy implementation. During 2023/24, a total of 529 suspected fraud referrals (these related specifically to high-risk public fraud service areas) were passed to Reigate and Banstead's Counter Fraud team for investigation, with 525 cases reported as reviewed. Overall fraud losses prevented/detected for the financial year 2023/24 amount to £367k (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.

### Spelthorne's quantified Counter Fraud Returns for 2023/24 (Public Fraud)

Category	Positive Outcomes (Number of cases)	Notional Savings £	Cashable Savings £	Proportion of quantified cashable savings to Spelthorne £	Proportion of annual fraud return %
Housing Register Applications	17	£55,080	£0	Nil reported	15%
Homeless and Prevention	15	£48,600	£0	Nil reported	13.25%
Social Housing Fraud	2	£186,000	£0	Nil reported	50.7%
Council Tax Reduction Scheme and Housing Benefits	7	-	£55,270.19 (CTRS – 20,340.72)  (HB – 34,929.47)	CTRS – £6,079 based on 11%  HB £34,929.47	15.1%
Council Tax – SPD * refer also to <u>additional</u> SPD returns generated from the targeted Countywide exercise	4	-	£21,822.49	£2,400 based on 11%	5.95% *
Totals for 2023/24	45	£289,680	£77,092.68	£43,408.47	Total fraud savings £366,772 (Columns 3+4)

\*In addition, Spelthorne participated in a County wide Single Person Discount (SPD) data matching exercise. The Customer Services team have reported that from this initiative 829 SPD'S were removed of which 76 have been re-instated.

An extract from the report produced by the service provider NEC is set out below which surmises key financial outcomes from the exercise:

*'NEC provided the Council with a 5.46 % reduction in the number of SPDs claimed, inclusive of 16 general CTR cases and 184 CTR non responder cancellations. Excluding the 200 returns, the cancellation rate is 4.0% This subsequently resulted in additional Council Tax revenue in excess of £296,425.37 for the Council which in turn, equates to an average cancellation*

*value of £536.03 per SPD removed by NEC. Please note, savings do not include returned accounts.*

## **5. Risk management comments**

- 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 2023/24) 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) and the new Global Internal Audit Standards launched in 2024, with a requirement to fully apply to the new auditing standards from 2025. 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 respective work programmes.

## **6. Procurement comments**

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

## **7. Legal comments**

- 7.1 The Public Sector Internal Audit Standards (PSIAS) are mandatory further to the Accounts and Audit (England) Regulations 2015. Production of an annual audit report and annual audit opinion forms a requirement under PSIAS, reinforced under the new Global Internal Audit Standards that have taken effect from 2024 with full implementation stipulated by the Chartered Institute of Internal Auditors (Global) for all internal audit professionals and service providers by 2025.

## **8. Other considerations**

- 8.1 There are none.

## **9. Equality and Diversity**

- 9.1 Equality, Diversity and Inclusivity represents a risk category 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. In addition, an internal audit review was undertaken as part of the 2023/24 audit programme.

## **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. Some Managers incorporate audit follow up as part of the continuous performance management process when holding performance clinics with individual officers, which provides a further mechanism to promote and embed a robust control environment.

## **12. Contact**

12.1 Punita Talwar, Audit Manager. [P.Talwar@splethorne.gov.uk](mailto: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)**

**Counter Fraud Returns**

**Appendices:**

**Appendix A – Work areas undertaken by the Internal Audit Service relating to 2023/24**