

Local Members Interest
N/A

Audit and Standards Committee - Tuesday 11 July 2023

Internal Audit Outturn Report 2022/23

Recommendation

I recommend that:

- a. Members receive the outturn report containing the annual internal audit opinion for 2022/23.

Report of the Director of Finance

Report

Background

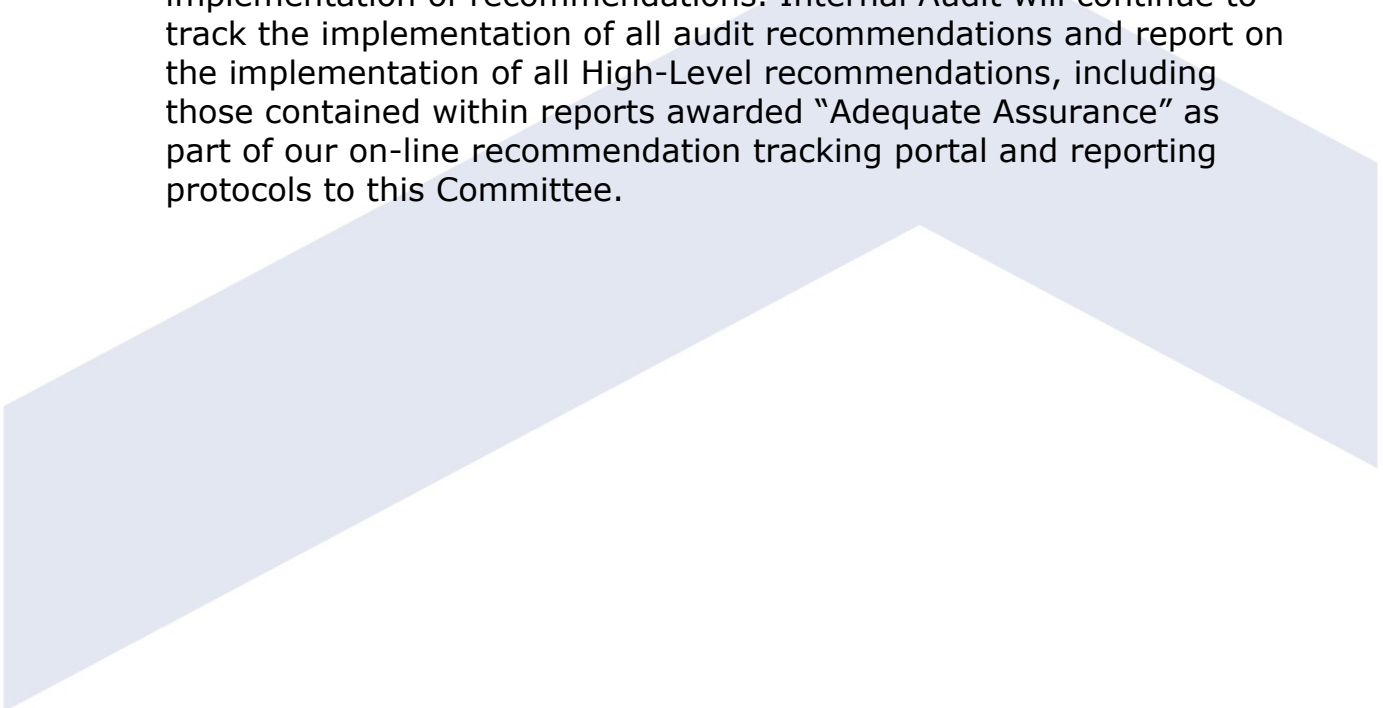
1. This report outlines the work undertaken by Internal Audit in respect of the 2022/23 annual plan.
2. Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements, i.e the control environment of the organisation. Internal Audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes¹.
3. Internal Audit is required by professional standards, i.e.UK Public Sector Internal Audit Standards (PSIAS), to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. In accordance with these requirements the Head of Internal Audit must provide an annual opinion that covers the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:
 - a. The opinion;
 - b. A summary of the work that supports the opinion; and

¹ Public Sector Internal Audit Standards definition of Internal Auditing.

- c. A statement on conformance with PSIAS and the Local Government Application Note (LGAN), highlighting any areas of non-conformance.
4. The underlying principles to the 2022/23 plan were outlined in the Internal Audit Strategy and Plan approved by Members of the Audit & Standards Committee on 26th April 2022. Since the original plan was approved, a number of additional audits have been required, to provide assurances over areas such as procurement activities undertaken during the COVID 19 pandemic (which will go on to support and inform the national COVID Inquiry work to take place during 2023/24), additional grant expenditure received in-year, the Council's Local Authority Trading Company (LATCO), NEXXUS following the publication of government guidance as well as new IT systems procured and other digital developments, whilst some planned reviews were no longer needed and several deferred due to operational requirements including external inspections as well as the availability to undertake audits in some service areas due to service pressures. However, the net effect is that the key performance target has been achieved.
5. It should be noted that work is scheduled to meet the requirements of the business area to ensure the greatest benefit is achieved from the audit work. Therefore, it is not uncommon for reports to be at draft report stage at the end of the audit year. In respect of this point, as services get back to "business as usual" following COVID 19, there has been a delay in commencing some audits until the end of the financial year, which meant there were a greater number of reports still at draft report stage at the end of March/April 2023. However, the Internal Audit Team continue to proactively seek management responses to all outstanding draft reports.
6. Each control tested as part of an individual audit is evaluated for its adequacy. The table below demonstrates the number of controls that have been evaluated as part of the 2022/23 Internal Audit Plan for systems audits and the comparison figures for the previous two years:

	2020/21	2021/22	2022/23
Controls Evaluated	1,034	1,206	949
Adequate Controls	570 (55%)	773 (64%)	573 (60%)
Partial Controls	313 (30%)	302 (25%)	303 (32%)
Weak Controls	151 (15%)	131 (11%)	73 (8%)

Audit opinions are awarded for individual systems and compliance audits within one of the following categories listed below. Further information as to how these are determined is given in **Appendix 1**:

- a. Substantial Assurance
 - b. Adequate Assurance
 - c. Limited Assurance
7. Paragraphs 9 to 32 provides a high-level summary of the work undertaken by the Section analysed by the following categories:
- a. High Risk Auditable Areas;
 - b. Main Financial Systems;
 - c. Other Systems Audits (reported by exception, i.e only those with "Limited Assurance" and/or those with a High-Level Recommendation);
 - d. Compliance Reviews (including financial management in maintained Schools, comfort funds, complex needs units and District Offices reviews);
 - e. Special Investigations/Fraud & Corruption Related Work.
8. For those areas awarded 'Limited Assurance,' action plans have been or are in the process of being agreed with the relevant Director /Head of Service. During 2022/23, Members of the Audit & Standards Committee have continued to receive full copies of all "Limited Assurance", High Risk Auditable areas (regardless of opinion) and Major Special Investigation reports (i.e greater than £10,000 financial loss/Significant Corruption issues) once finalised. Also, relevant managers have attended the Committee in-year to provide assurance that appropriate action has been taken regarding the implementation of recommendations. Internal Audit will continue to track the implementation of all audit recommendations and report on the implementation of all High-Level recommendations, including those contained within reports awarded "Adequate Assurance" as part of our on-line recommendation tracking portal and reporting protocols to this Committee.
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2022/23 Audit Plan Outcomes

High Risk Auditable Areas

9. Our Internal Audit and Strategy and Plan Paper identified the top risk audits/reviews for the County Council in 2022/23. These reviews acknowledged the key risk areas and financial pressures within the Council with its continued work on the Council's digital strategy and transformation projects including the Corporate File Plan project and other IT systems including the Council's new recruitment applicant tracking system, as well as a continued look at our cyber security arrangements with specific focus on major incident and threat and vulnerability management in-year. Internal Audit continued to support the Council's response and recovery work relating to the COVID pandemic including a review of the contain outbreak management fund. Other priority areas were also kept under review in-year including the Council's on-going arrangements relating to climate change and Special Educational Needs and Disabilities (SEND). On-going assurance was also requested in relation to the large-scale Highways Transformation Programme and revised processes operating within Childrens Services and the Council's S117 provisions for aftercare services in relation to mental health.
10. The audit opinions for all the high-risk reviews are summarised in the table below:

System Area	2022/23 Opinion	2022/23 Consultancy
Social Care Reforms – including Build back Better Project and Adult Social Care Pathway – Strength Based Care	Cancelled - Adult Social Care Reforms were paused by Central Government in-year. Strength Based Care Pathway deferred to 2023/24	
*Climate Change Action Plan – Project & Programme Management	Substantial Assurance	
Community Climate Action Fund	Adequate Assurance	
Digital Strategy & Transformation – Corporate File Plan/ Customer Journey Project, Digital Leadership Group		✓ Project advisory work
Children's & Families Transformation – Panel & Decision-Making Arrangement	Draft Report with Management (Substantial Assurance)	
Children's & Families Transformation – New District Model	Cancelled – due to Internal review and further revisions to their operating model	

System Area	2022/23 Opinion	2022/23 Consultancy
	- Deferred to 2023/24	
* Cyber Assurance – Cyber Security Strategy	Adequate Assurance	
*Cyber Assurance – Threat & Vulnerability Management	Substantial Assurance	
*Cyber Assurance – Major Incident Management	Substantial Assurance	
**Cyber Assurance – Software as a Service (SaaS) Procurement & Monitoring	Draft Report currently being produced – opinion awaited	
Culture, Values & Behaviours	Work On-Going	
Entrust Contract Management Arrangements	-	✓ Project advisory work
*Contain Outbreak Management Fund - Grant Verification	Substantial Assurance	
*Recruitment Applicant Tracking System (We Recruit)	Substantial Assurance	
SEND Strategy Implementation Plan	Substantial Assurance	
*SEND High Needs Block	Adequate Assurance	
Highways Transformation Programme	Position Statement	
*Mental Health Act – Section 117	Substantial Assurance	

*To be distributed to Audit & Standards Committee members outside of this meeting.

** Currently at draft report stage, therefore any high-level recommendations have not been included in this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee.

11. It is pleasing to note that there have been no Limited Assurance reports issued for the top risk reviews conducted in 2022/23.
12. In addition, for those final reports relating to high-risk auditable areas, with an opinion of at least "Adequate," one high level recommendation has been made as follows:

System Area	Areas for Improvement
Recruitment Applicant Tracking System (we Recruit)	<ul style="list-style-type: none"> • Candidate Portal – New Starter forms, containing sensitive information including special category data stored on shared filling is accessible to the 'Human Resources - Change' active directory group which has a number of members which did not have a business need to have access to this data.

13. The top risk audit reviews awarded an adequate/substantial assurance opinion, and which have not been previously presented to the Audit and Standards Committee will be distributed to Members of the Committee outside of this meeting for further consideration.

Main Financial Systems

14. Audit coverage of the key financial systems in 2022/23 was in line with the audit strategy:

Main Financial System	2019/20 Opinion	2020/21 Opinion	2021/22 Opinion	2022/23 Opinion	Direction of Travel
Liberata Payroll System	Adequate Assurance	Adequate Assurance	Adequate Assurance	Adequate Assurance	→
Pension Fund - Pensions Payroll	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Pension Administration	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Pensions IT System (ALTAIR)	Not Covered in 2019/20	Not Covered in 2020/21	Advisory	Adequate Assurance	→
Pensions Fund – Asset Pooling – Governance & Financial Reporting Arrangements	Adequate Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Custodian, Investment Managers and Pensions Property	Not Covered in 2019/20	Substantial Assurance	Substantial Assurance	Not covered in 2022/23	→
Pension Fund - Investments (SCC local arrangements)	Substantial Assurance	Substantial Assurance	Not covered in 2021/22	Substantial Assurance	→
Budgetary Control	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Procure to Pay	Substantial Assurance	Not Covered in 2020/21	Substantial Assurance	Not covered in 2022/23	→
Sales to Cash including Debt Recovery Function & Debt Management	Adequate Assurance	General Debts - Limited Assurance	Adequate Assurance	**Draft Report with Management (Limited Assurance)	↓
		CCG/Other Health Body Debts- Adequate Assurance			

Main Financial System	2019/20 Opinion	2020/21 Opinion	2021/22 Opinion	2022/23 Opinion	Direction of Travel
E- Payments	Not Covered in 2019/20	Substantial Assurance	Substantial Assurance	Not covered in 2022/23	→
Cheque Control	Not Covered in 2019/20	Not Covered in 2020/21	Not Covered in 2021/22	Not covered in 2022/23	→
Main Accounting Including Bank	Not Covered in 2019/20	Substantial Assurance	Not Covered in 2021/22	Substantial Assurance	→
Treasury Management & Lloyds Link	Not Covered in 2019/20	Substantial Assurance	Not Covered in 2021/22	Substantial Assurance	→
Value Added Tax (VAT)	Not Covered in 2019/20	Not Covered in 2020/21	Substantial Assurance	Not covered in 2022/23	→

** Currently at draft report stage, therefore any high-level recommendations have not been included in this section of the Outturn report.

15. There has been one Limited Assurance report issued for the main financial systems areas in 2022/23 relating to sales to cash (including debt recovery). Our work in 2022/23 provided limited assurance over the Council's debt recovery arrangements in place to deal with both general debts and health & care client debts. As the audit review is at draft report stage, any high-level recommendations have not been included in this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee. In addition, for those main financial system reports with an opinion of at least "Adequate", one high-level recommendation has been made:

System Area	Areas for Improvement
Pension Fund – Pensions IT System (ALTAIR)	<ul style="list-style-type: none"> • Segregation of Duties - There was a segregation of duties conflict within the system that allowed one user to create a new pension member and run the payroll. This was resolved following the audit review. <p>In addition, there was a few roles that had permission conflicts (these roles had been assigned and restricted to system administrators).</p>

Other Systems Audits

16. The following system reviews delivered as part of the 2022/23 Internal Audit Plan are reported by exception i.e only those with Limited Assurance and/or those with a high-level recommendation. It is pleasing to note that there have been no Limited Assurance reports issued for the other systems audit reviews conducted in 2022/23.

17. However, there are several final reports relating to other system audits, with an opinion of at least "Adequate," where high level recommendations have been made.
18. The following table lists those other systems audits where high-level recommendations have been made to address control weaknesses within Adequate Assurance/Position Statement reports:

System Area	Areas for Improvement
My HR System Security	<ul style="list-style-type: none"> • User Records - Data inconsistencies were identified in relation to user lists held by the Council and the contractor which questions the data integrity within the system.
Members Allowances & Expenses	<ul style="list-style-type: none"> • Supporting Documentation - Expenditure and fuel receipts were not being submitted with the claims and validated before the claims were authorised which is contrary to the Members Allowances Scheme.
Information Asset Register (IAR)	<ul style="list-style-type: none"> • Completion of the IAR - a significant number of register entries were not complete, or elements of the information recorded against an asset were inconsistent within the entry. Also, the legal basis for information sharing was not fully recorded in the information asset register and there was no detail of Information sharing agreements shown in the register.
Disabled Facilities Grant - Expenditure & Outcomes	<ul style="list-style-type: none"> • Expenditure Monitoring - Comparison of funding allocations, expenditure recorded by the external delivery partner and balances declared by the six District/Borough Councils in the Support for Independent Living in Staffordshire contract on their Annual Certificates as at 31 March 2022 identified a potential significant discrepancy which required investigation.
Building Resilient Families & Communities (BRFC)	<ul style="list-style-type: none"> • BRFC Compliance Checks - Testing identified families which should not be claimed as successful outcomes and gaps and anomalies within the information being recorded in Capita One and the supporting documentation were noted.
Disability Access Funding (DAF)	<ul style="list-style-type: none"> • Appropriate Use of DAF Allocations - Monitoring arrangements were not in place to ensure that providers were spending their DAF allocations as per the DfE's criteria.
Nexus Care (LATCO) Financial Assurance Review	<ul style="list-style-type: none"> • Company Board Membership - Membership of the Company's board needed to be reviewed to ensure that it was fit for purpose.
COVID 19 Procurement Activities	<ul style="list-style-type: none"> • Exceptions to Procurement Regulations - Audit testing found that exceptions have not been sought where contracts have been directly awarded to suppliers.

19. Complying with the Data Protection Act 2018 which incorporates the General Data Protection Regulation 2018 (GDPR), is an ongoing responsibility. However, it is important that Internal Audit provides ongoing assurance to management in this area as part of its planned systems audit work across the Council. In 2022/23, for all applicable audits i.e where the auditable area being reviewed processes personal data, a GDPR checklist was completed to identify GDPR compliance issues that may be required to be reported.
20. In 2022/23, a GDPR checklist was completed for 16 system audit reviews. Of these, compliance issues were noted in 4 reviews resulting in three medium and one low level recommendation being made. Arrangements for ensuring accuracy of data along with data security and data retention periods were common themes arising from these reviews. The recommendations made will continue to be monitored until implemented along with all the other agreed recommendations made as part of the individual audit reviews.

Compliance Reviews Including Financial Management in Maintained Schools

21. Our compliance programme as detailed below is in line with the audit strategy:

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
Compliance: Schools				
High Schools	0	0	1	1
All other schools	0	3	12	15
Compliance: Other				
Comforts Funds*	10	0	0	10
Educational Endowment Funds*	3	0	0	3
Area District Offices	5	0	0	5
Residential Homes - LD	1	0	0	1
Residential Homes - Other	0	0	2	2
Complex needs Units	0	3	0	3
Compliance Reviews	19 (48%)	6 (15%)	15 (37%)	40

*These reviews related to the audit of accounts and no issues were identified.

Compliance Reviews: Financial Management in Maintained Schools

22. Schools Payroll – For the year 2022/23, payroll services to schools continue to be provided by several providers. As a result, Internal Audit has continued to undertake a themed audit review of payroll services to provide assurance on the internal control environment operating in schools for this area. To ensure efficiency of operation, the payroll themed review is undertaken while the compliance review is completed at the school, hence only one opinion has been given covering all systems at the school. The detail from the themed audit reviews on payroll is provided at paragraph 25 below.

Schools Compliance

23. Our Schools' Compliance Programme for the year ahead is based upon a formal risk assessment methodology which considers; the time since last audit, the previous audit opinion, delegated budget value, whether there is a licenced deficit in place, if the school has community facilities, the last Ofsted rating and submission of the Schools Financial Value Standard (SFVS) return. In addition, and like last year, for the 2022/23 schools' audit compliance programme, a Schools' Fraud Risk Assessment was produced which fed into the risk assessment methodology. This meant that several schools that had not been audited for several years along with some smaller schools were selected for review during 2022/23.
24. From the table above, a large number of schools were awarded a limited assurance opinion during 2022/23 (13 schools) which although a similar number to last year, 2021/22 (14 schools) represents a sustained significant increase based on previous years (three limited assurance opinions were awarded in both 2020/21 and in 2019/20). For those schools being awarded a limited assurance opinion, issues were found relating to number of financial administrative areas including school governance; independent oversight of the school fund account; the proper accounting and banking of income; compliance with Schools' Procurement Regulations; purchase card use; lettings governance and administration processes; the proper maintenance of records relating to payroll transactions including authorisations for appointments, terminations ,variations and additional hours; the proper authorisation of the payroll; and the appropriateness of payroll validation checks undertaken.

25. Generally, the compliance and payroll themed reviews identified non-compliance with key controls in the following areas:

Schools – General Compliance

Governance

- Scheme of Delegation requires amendment/approval. *(14 schools)*
- Lack of clear committee minutes taken; Committee Terms of References; inappropriate committee membership and/or infrequent committee meetings held. *(5 schools)*
- Budgets have not been set, approved, or reviewed in accordance with the Scheme of Delegation and Financial Regulations including budget deficit strategies. *(5 schools)*
- Budgets are not supported by documentation including a costed ICT plan /capital programme. *(3 schools)*
- Key Policies not approved in accordance with the Scheme of Delegation; policies which lacked detail and/or lack of annual review. *(11 schools)*
- Lack of Governor challenge to budget monitoring reports. *(1 school)*
- Financial reports are not submitted to the Committee responsible for Governance of School Finances or reports are inadequate. *(4 schools)*
- The School Fund is not audited and approved in accordance with requirements of Financial Regulations. *(11 schools)*
- Pecuniary interest register is not up to date/published in accordance with guidance. *(11 schools)*
- Income and expenditure of extended School Provisions (Below the line accounts) are not coded to the correct cost centres. *(2 schools)*
- The financial performance of extended school provisions are not being separately reported to the Full Governing Body. *(4 Schools)*

Income

- Income is not banked promptly and/or intact. *(3 schools)*
- Income is not recorded or receipted in accordance with Financial Regulations. *(8 schools)*
- Transfer of income between officers is not evidenced. *(1 school)*
- Banking records are poor and/or not well maintained. *(1 school)*
- There is a lack of separation of duties or independent check in the income and banking process. *(10 schools)*
- Lettings are not administered appropriately, including VAT and evidence of public liability insurance. *(6 schools)*
- The school does not have a lettings policy, lettings policy is out

- of date or lettings charges are not detailed in the Charging and Remissions Policy. *(2 schools)*
- Lettings charges are not made in accordance with policy or reviewed and approved annually. *(1 school)*
- Invoices have not been raised in the finance system or unofficial invoices have been raised. *(2 schools)*
- No independent spot check of income received/banked is conducted. *(6 schools)*
- No independent reconciliation or review of Parent Pay postings to MyFinance. *(3 schools)*
- The school does not promptly pursue outstanding debts. *(6 schools)*
- The school is using an unofficial online payments system which has not been notified to the S.151 Officer. *(3 schools)*
- Debtor invoices are not raised promptly. *(4 schools)*
- Lack of reconciliations between charges from school meals providers and school meals provided. *(1 school)*.
- Lack of an appropriate segregation of duties within the on-line payment system allowing charges to be raised and payments monitored by the same person. *(7 schools)*

Procurement

- No financial limits set for declared pecuniary interest in companies. *(2 schools)*
- Value for money procedures such as quotations/tenders not complied with in accordance with Scheme of Delegation or Procurement Regulations. *(12 schools)*
- Purchase card is not held/ used in accordance with the Purchase Card Manual/ Financial Regulations. *(7 schools)*
- Purchase card transactions are not reviewed/approved. *(5 schools)*
- Lack of supporting documentation held to support purchase card transactions. *(6 schools)*
- Incorrect accounting for VAT. *(11 schools)*
- Purchase orders are not raised to support procurements in accordance with Financial Regulations. *(10 schools)*
- Contracts are not in place for regular services where they would be expected. *(1 school)*
- No evidence that contractors' insurance cover arrangements are checked prior to their engagement. *(6 schools)*

Expenditure

- Expenditure incurred without adequate approval in accordance with the Scheme of Delegation. *(2 schools)*
- Lease agreements are not reviewed annually. *(5 school)*
- Leases are not signed in accordance with Scheme of Delegation

/or copies not held by the school. (3 schools)

Schools – Payroll Themed Audit

- Authorisations for appointments, terminations and variations could not be evidenced, is not consistent and/or retained on personnel files. (10 schools)
- Claim forms not signed by the employee and/or not authorised in accordance with the Scheme of Delegation. (11 schools)
- Validation checks and agreement/authorisation of the payroll is not evidenced. (10 schools)
- Service level agreement for payroll services not provided during the audit. (2 schools)
- Contract for provision of payroll services not authorised in accordance with Scheme of Delegation. (3 schools)
- Lack of appointment documentation retained. (1 school)
- Pre-recruitment checks could not be verified. (2 schools)
- Staff vacancies had not been advertised. (1 school)
- Lack of documentation to support revisions/decisions to Headteachers' pay i.e., performance review/approval of pay award. (4 schools)

Compliance Reviews: Other

26. It is pleasing to note that our compliance reviews of our Residential Homes (Learning Disabilities) and Complex Needs Units did not highlight any serious key control failings. However, lower-level recommendations were made relating to:

- Lack of separation of duties in respect of the operation of the imprest account and the absence of a regular reconciliation of the account. (Medium level recommendation)
- Budgets were not always being monitored. (Medium level recommendation)
- Inventory assets written off were not always being authorised. (Medium level recommendation)
- One item (low-cost item) on the asset register at one establishment could not be located at the time of the audit review. (Low level recommendation)

Also, it is pleasing to note that our testing of the financial administrative arrangements for purchase card cash withdrawals at five area district offices did not highlight any serious key control failings. However, lower-level recommendations were made relating to a) the need to ensure that the purchase card cash withdrawal transaction is approved on a timely basis on the on-line purchase card system; b) the need to ensure that reconciliations of the

cashbook to the physical cash-in hand are carried out; and c) the need to ensure that cash withdrawal forms are completed.

However, a review of two residential care homes (operated by Nexxus Care) has highlighted several improvements to the financial administrative arrangements in place at both establishments and as a result, a limited assurance opinion has been awarded. Currently, this review is at draft report stage, and therefore the high-level recommendations have not been included in this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee

Special Investigations/Fraud & Corruption Related Work

27. A summary of work undertaken in relation to fraud and corruption and specific counter fraud testing is attached as **Appendix 2** in the confidential part of the agenda. Overall, the counter fraud and corruption work carried out in 2022/23 indicated that there have been some lapses in the application of controls leading to an increase in the risk of fraud. The table below summarises those exercises and investigations which involved “confirmed” financial losses. Reports have been issued/will be issued to ensure that the control weaknesses have been addressed and re-occurrence prevented.

Area	Financial Value £	Commentary
Internal Special Investigations of Fraud/Error – To be Recovered/In Recovery	£140,451	See Appendix 2 – Fraud & Corruption Outturn Report 2022/23 (section 5) for further details of the special investigation relating to an individual in receipt of a SEND Personal Budget.
National Fraud Initiative (NFI) 2022* (All losses will be subject to final validation & recovery action)	WIP	Potential data matches are currently being investigated and will be reported to a future meeting of the Audit & Standards Committee. <u>2,017 matches closed: Outcomes:</u> 4 Blue Badges Cancelled 1,938 Travel Cards Cancelled
Other Proactive Fraud Exercises including CCM – Fraud & Error	£25,802	£14,300 relates to a proactive data matching exercise between deceased data against care service provisions held in the Council’s Care Director System. £11,502 relates to our CCM programme (duplicate creditor payments/purchase card v invoice payments and a minor duplicate mileage claim) See Appendix 2 – Fraud & Corruption Outturn Report 2022/23 (sections 2 & 3) for further details
Total financial losses-fraud/error (to be recovered)	£166,253	

**NFI = National Fraud Initiative. This is a national exercise undertaken biennially which is administered by the Cabinet Office. Data submitted by the Council is cross checked against other public sector organisations' data highlighting potential areas of fraud/error. These are then investigated locally. Detailed reports are reported regularly to Members of the Audit & Standards Committee highlighting the results of this work.*

28. The quantity of concerns referred to Internal Audit is comparable with the previous years at 35 (increase of seven from the previous year), of which 16 related to areas of Council Activity. The volume of referrals not related to Council activity is accepted as a side effect of offering simple, anonymous reporting mechanisms and these are redirected to appropriate bodies. The actual value of referrals is slightly lower than the previous year but is still significantly high due to one high value fraud detected during 2022/23. Steps are taken to identify control weaknesses and root causes of all allegations where there is evidence of fraud or error, to help minimise future risk. The actual financial losses related to our counter fraud work has decreased slightly from £191,748 in 2021/22 to £166,253 in 2022/23. Whilst this value is not seen to be material for 2022/23, the financial loss suffered by the Council still remains high (generally) when compared to previous fraud losses over the last decade.
29. In 2022/23, and connected to the Council's local fraud response, the Internal Audit Service has continued to undertake various grant verification exercise to confirm compliance with grant conditions and post assurance probity checks have been undertaken on some of the Council's community funding streams including the Community Climate Change Action Fund, and the Community Fund – Members Programme. Also, Internal Audit resources have been used in-year to provide assurance over the fraud controls proposed for the Council's new recruitment applicant tracking system which went live during 2022/23.
30. To evaluate the effect this element of Internal Audit work has upon the wider control environment, a threshold of £300,000 financial loss per annum has been set. When this level is exceeded, it is considered to have a material effect on the control environment. This year's level of actual financial loss is considered significant but not material.
31. The table below shows the trend of actual financial loss due to fraud and error over the past decade:

Year	Financial Value	Direction of Travel
2013/14	£101,753	↑
2014/15	£94,140	↓
2015/16	£73,115	↓
2016/17	£56,690	↓
2017/18	£105,232	↑
2018/19	£77,085	↓
2019/20	£145,848	↑
2020/21	£184,841	↑
2021/22	£191,748	↑
2022/23	£166,253	↓

32. The special investigations category consists of two elements: firstly, the financial loss incurred, and secondly an evaluation of the control environment based on the counter fraud and corruption work outlined as a separate item on the agenda. Proposed percentage allocations are as follows:

Special Investigations		Fraud and Corruption Work	
£0 – below £50,000 loss	50%	Procurement /Contract arrangements/Expenditure	10%
£50,000 - £150,000 loss	40%	Physical Cash/Asset management arrangements	10%
£150,000 - £200,000 loss	30%	Payment Mechanisms	10%
£200,000 - £300,000 loss	20%	Payroll /Expenses	10%
Above £300,000 loss	10%	Income	10%

Based on the above criteria the overall score awarded for this category is **70%** (i.e., 30% for the special investigations elements as the actual financial loss incurred is between £150,000 to £200,000. 40% has been awarded for the fraud and corruption elements based on the details outlined in the report contained in the confidential agenda).

Overall Opinion on the Control Environment

33. The following methodology outlined below, has been used as the basis to form the annual assessment of the overall internal control environment for 2022/23.

Current Methodology

34. Each separate category of audit work is assessed against a benchmark of achieving a score of at least 90% of the total number of audits performed being awarded an opinion of "Adequate or above" within each category. For a reason of simplicity, each category attracts equal weighting, and a simple pass / fail assessment is used to differentiate the overall opinion between "Substantial, Adequate and Limited" as illustrated below:

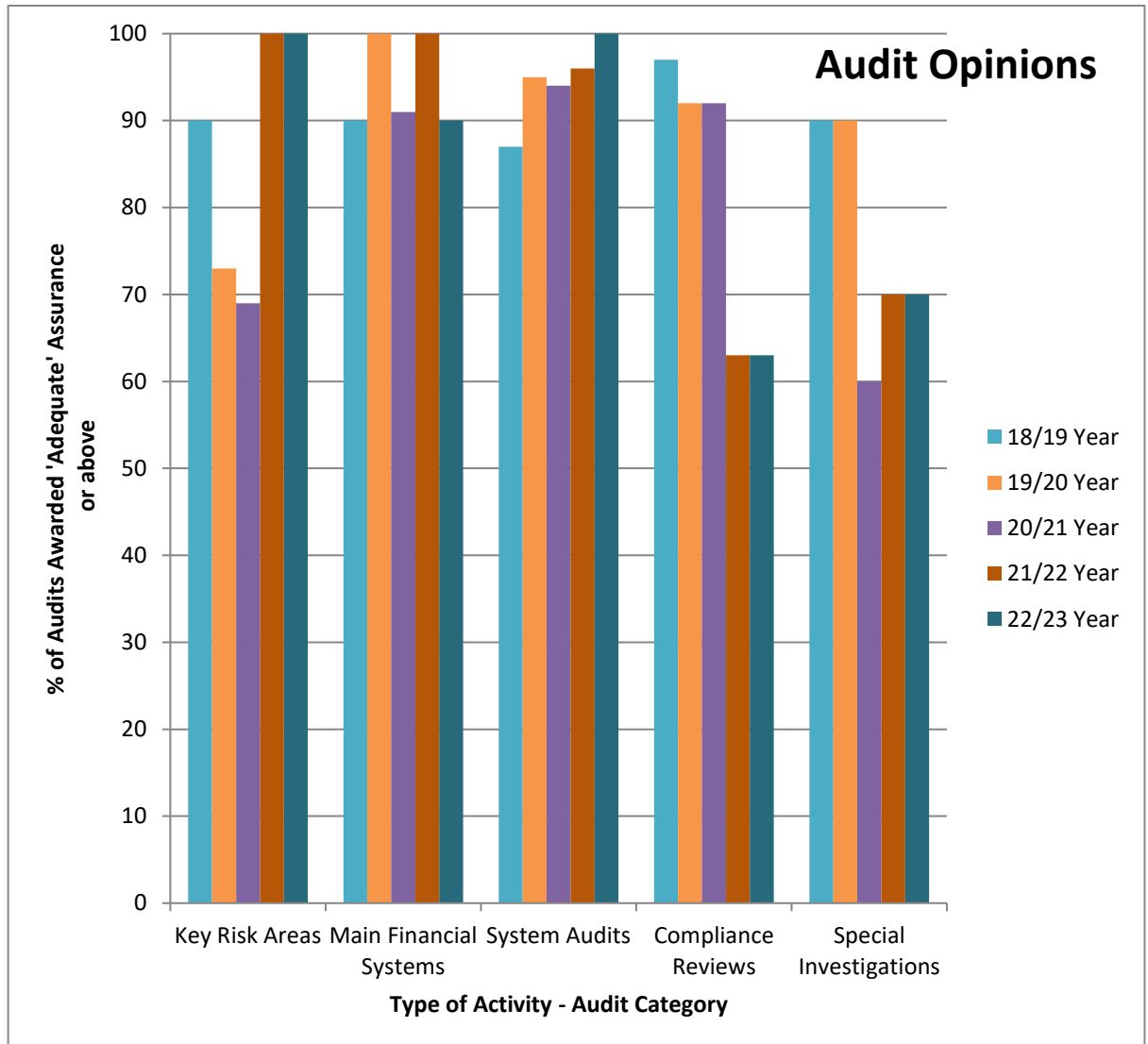
Overall Opinion Level	No of categories achieving the 90% benchmark
Substantial Assurance	5 out of the 5 categories
Adequate Assurance	3 or 4 out of the 5 categories
Limited Assurance	2 and below out of the 5 categories

Implications

35. The following table details the calculation of the 2022/23 overall assessment:

Audit Category	% awarded an opinion of at least "adequate"	Pass/Fail
Key Risk Areas (<i>paragraphs 9 to 13</i>)	100%	Pass
Main Financial Systems (<i>paragraphs 14 & 15</i>)	90%	Pass
System Audits (<i>paragraphs 16 to 20</i>)	100%	Pass
Compliance Reviews (<i>paragraphs 21 to 26</i>)	63%	Fail
Special Investigations/Fraud & Corruption Related Work (<i>Paragraphs 27 to 32</i>)	70%	Fail
Overall Total		3 out of 5 categories passed

36. The chart below details the audit opinions given to the key audit categories and provides a comparison with those awarded over the last five years, 2018/19 to 2022/23:



37. Based on the above, an **"Adequate Assurance"** opinion has been given on the overall adequacy and effectiveness of the organisation's governance, risk, and control framework, i.e., the control environment in 2022/23.
38. This year's audit plan has been dominated firstly by our planned audit activities supporting the Council's digital transformation programme and specifically the high-profile Corporate File Plan Project and new IT systems including the new "we recruit" applicant tracking system and the new Altair Pensions System. Internal Audit has also been involved in other transformational work including the on-going highways transformation programme and our work to provide assurance over new service delivery models such as the household waste recycling centres. Our work in these areas focussed on ensuring that sufficient controls including fraud controls are considered and built into new and revised business processes at the right time to support a robust control environment. In 2023/24,

we will turn our attention to the new arrangements operating within Children's services following their transformation programme and also the revised processes operating within SEND services as well as providing on-going support to those services which have transferred back in house including the Household Waste Recycling Service, Early Years Service and Careers and Participation Service. Secondly, during 2022/23, the Internal Audit Service has continued to support the Council in undertaking the various required grant verification sign-off exercises along with post assurance checks to provide assurance that funding is accurately accounted for and has been used appropriately. No significant concerns were noted. Further grant verification work is required in 2023/24 although the number of audits in this area have reduced as the Council returns to 'business as usual' following the COVID 19 pandemic.

39. Emphasis on strong financial management remained in 2022/23 with a full audit programme of main financial systems conducted. The Council's debt recovery arrangements have again emerged as an area of concern. Although general debt and other debt categories were at or below target at year-end, Health and Care Client Debt (over 6 months old) significantly exceeds the financial target for 2022/23. Subsequently, several recommendations have been made in our latest internal audit review to improve the Council's invoicing, income collection and debt recovery arrangements in place. In respect of debt targets, it should be noted that from quarter one of 2023/24 onwards, the debt key performance indicator (KPI) has been amended from £14.7m to £21.5m. These amendments have been made to reflect the fact that a) the previous target had not been revised since 2019/20 and b) the Covid 19 pandemic, the cost-of-living crisis and the decision of the Social Care Ombudsman regarding residential care billing have changed the income raising and collection environment. Internal Audit will provide further assurance over this area in 2023/24. In relation to the payroll control environment for the Council's core payroll, this area has again been awarded an adequate assurance opinion with no high-level issues raised, which is pleasing to note. At the time of writing, audit work relating to the Pension Fund – Pension Pool investment arrangements which was being carried out by one of the Partner Fund authorities was still in progress and the opinion is currently awaited. This will be reported to this committee, as appropriate once finalised.
40. The 2022/23 Schools' compliance programme has again identified areas of non-compliance and lapses in internal controls with limited assurance audit opinions being awarded for thirteen school establishments, which although similar in number to last year

continues to represent a sustained increase when looking back over recent years. Also, control weaknesses relating to payroll processes operating at schools have continued to be identified during 2022/23. As a result of these audit outcomes, in-year we have undertaken continuous controls monitoring (CCM) specific to schools to give greater assurance over financial transactions. It is our intention to continue to raise awareness of best practice and counter fraud measures with more regular communications to schools throughout 2023/24. Our school visits will also continue to be supplemented by a programme of CCM that will provide assurance over a greater volume of financial transactions across all Staffordshire Schools in 2023/24, the findings of which will feature in our communications with schools to reinforce lessons learnt throughout the year.

41. Finally, despite the significant value of financial losses (fraud/error) identified in 2022/23, the number of limited assurance opinions awarded across the planned system reviews have continued to reduce from four in 2021/22 to one in 2022/23 with no limited assurance opinions being awarded in either the top risk or the other systems audit categories of work. Notably, the largest financial loss reported in this year's annual outturn report relates to one serious fraud (misuse of SEND personal budgets) which has been fully investigated and reported to the Police (investigation currently on going). Internal Audit will continue to support the service area in 2023/24 to provide assurance over revised processes to be put in place. Other smaller financial losses related to our own initiated proactive exercises using Council data effectively to detect anomalies for further investigation (anomalies in 2022/23 were considered error rather than fraud). We will continue to use data analytical tools to enhance the assurance and insights provided to senior management across all business operations during 2023/24.

Performance Measures

42. Key performance indicators (KPI) for the Internal Audit Service are detailed below. The Service has met its key performance target of more than 90% of reports being issued to draft report stage for both systems and compliance audits during 2022/23. The Service continues to meet the KPI targets for the quality questionnaire feedback.

Description	Target %	2019/20 %	2020/21 %	2021/22 %	2022/23 %
Reports issued to draft report stage:					
o Systems Audits	90	92	97	93	96
o Compliance Audits	90	90	93	100	90
Average score for Quality Questionnaires from clients is equal to or exceeds the 'good' standard:					
o System & Compliance Audits	90	100	100	100	100

Performance against the UK Public Sector Internal Audit Standards (PSIAS)

43. The UK PSIAS came into force on 1 April 2013 with the aim of promoting further improvement in the professionalism, quality, consistency, and effectiveness of internal audit across the public sector. These have been updated periodically since (last updated April 2017). A Local Government Application Note (LGAN) has also been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide further explanation and practical guidance on how to apply the standards. The LGAN is also updated periodically (last updated March 2019).
44. All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments (n.b the Internal Audit Service undertakes its own self-assessment annually the result of which are reported to this Committee), external quality assessments (EQA) or a combination of both methods. However, the standards state (standard 1312) that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five-year period. The service's last EQA was undertaken in January 2018 and therefore a further external assessment was scheduled for January 2023 and was subsequently procured from CIPFA following a quotation process.
45. The EQA comprised a combination of a review of documentation provided by Internal Audit; a review of a sample of completed audits, a survey completed by a range of stakeholders as well as interviews with key stakeholders. This work took place week commencing 16th January 2023. The full assessment results were reported to the Audit & Standards Committee at its meeting held on 21 March 2023 which outlined the overall conclusion and opinion of the assessor.

46. For ease of reference, the key highlights from the External Quality Assessor's report published in February 2023 were that 'the review established that there were no areas of non-compliance or partial compliance with the standards identified'. Based on the assessor's work undertaken, the overall conclusion was – 'It is our opinion that the self-assessment for the Staffordshire County Council's Internal Audit Service is accurate and as such we conclude that the Internal Audit Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note'. This is the highest category level that can be awarded via the CIPFA assessment process.
47. Whilst no recommendations were made, there was one advisory action for management to consider which related to keeping a watching brief on the developments to the standards which are due to be consulted on and revised during 2023/24.
48. With the above in mind, the work undertaken by the Internal Audit Service during 2022/23 and reported within the Annual Outturn Report has been performed in accordance with PSIAS. In relation to this, there are no impairments or restrictions in scope or impairments in independence or objectivity during the year which prohibit the Chief Internal Auditor or the Service from delivering the annual Head of Internal Audit opinion for 2022/23.

Equalities Implications

49. There are no direct implications arising from this report.

Legal Implications

50. Whilst there are no direct legal implications arising from this report, the Accounts and Audit (England) Regulations 2015 require specifically 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 (PSIAS) or guidance'. This report supports compliance with both the Regulations and the PSIAS.

Resource and Value for Money Implications

51. The net budget of the Internal Audit Section in 2022/23 was £1,027,510 of which £223,150 relates to payments to external providers.

Risk Implications

52. Internal Audit objectively examines, evaluates, and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient, and effective use of resources. Internal Audit will continue to align its work with the latest Corporate Strategic Risk Register.

Climate Change Implications

53. There are no direct implications arising from this report.

List of Background Documents/Appendices

- Audit Management System/Pentana Audit Management
- Annual Audit Plan & Strategy 2022/23
- 2022/23 Audit Charter
- Public Sector Internal Audit Standards – revised with effect from 1st April 2017.
- Local Government Application Note – with effect from 1st March 2019
- Accounts and Audit (England) Regulations 2015.
- CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2019 Edition).
- 2022/23 Progress Reports to Audit & Standards Committee & various Internal Audit Reports
- CIPFA External Quality Assessment of Conformance to the Public Sector Internal Audit Standards (dated 24th February 2023)

Appendix 1 – Recommendation Risk Ratings & Internal Audit Assurance Ratings.

Appendix 2 – Appendix 2 – Fraud & Corruption Outturn Report 2022/23 (Confidential agenda item).

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