

# INTERNAL AUDIT PROGRESS REPORT 2022/23

Date: 24 January 2023

Annex 1





## BACKGROUND

- 1 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the Council's Audit Charter. In accordance with the PSIAS, the Head of Internal Audit is required to report progress to the committee on the programme of internal work to support the annual internal audit opinion, and to highlight any emerging significant risks and/or control issues we have become aware of.
- 2 The proposed 2022/23 areas of work for internal audit, and the approach to flexible audit planning, were summarised in the Internal Audit Plan, which was agreed by members in March 2022.
- 3 It is important that audit resources are used effectively and continue to focus on those areas which add the most value. The plan and our work are designed to be flexible so that as new risks are identified, or priorities change the audit programme can be updated.
- 4 A primary focus of internal audit delivery in 2022/23 is linked to Local Government Reorganisation (LGR), and on those systems which are directly and indirectly affected by the transfer. Maintaining an effective control environment for existing key systems is also a key focus for officers and for our work.
- 5 The purpose of this report is to update the committee on internal audit activity between 1 April 2022 and 16 December 2022.



## INTERNAL AUDIT PROGRESS

- 6 In the period to 16 December 2022, since the last progress report, two final internal audit reports (General Ledger and Crematorium governance) have been issued.
- 7 Work has started in a number of areas. We have 7 audits in progress and another 3 audits are being planned and will start in January 2023. All fieldwork is planned to be completed by the end of February 2023.
- 8 We have been meeting regularly to discuss risks and ongoing work with the interim Head of Finance and Corporate Finance Manager. The timing and focus of work have been informed by our ongoing assessment of risk.
- 9 The main priority remains targeted work on the Council's key financial systems. This work involves testing the continued operation of key controls, reviewing identified areas of weakness, and considering specific data quality, system transfer and development matters linked to LGR.
- 10 There are no specific areas of emerging significant risks or significant control issues which we have become aware of, that we need to highlight to the committee.

- 11 A summary of internal audit work currently underway, and finalised in the year to date, is included in appendix A. Appendix B provides details of the audit reports finalised since the last committee. Appendix C lists our current definitions for action priorities and overall assurance levels.
- 12 We will continue to assess and monitor risk and discuss key areas with senior management. Work will be adjusted in response to changes in the Council's activities, risks, operations, systems and controls, if required.



## **FOLLOW-UP OF AGREED ACTIONS**

- 13 It is important that actions agreed to address previously reported findings and internal control matters are regularly and formally followed up. The Public Sector Internal Audit Standards (PSIAS) require internal auditors to have a follow up process to monitor action taken to address issues identified as part of internal audit work. This helps to provide assurance to senior managers and Councillors that control weaknesses have been properly addressed. It also provides assurance for our overall Head of Internal Audit Opinion. Service managers are responsible for resolving issues and implementing agreed actions.
- 14 We have followed up agreed actions either as part of our ongoing audit work, or in separate reviews. We currently have no matters to report to the Committee as a result of our follow up work.

## APPENDIX A: 2022/23 INTERNAL AUDIT WORK

### Audits in progress

Audit	Status
Creditors	Work in progress
Sundry debtors and debt recovery	Work in progress
Payroll migration	Work in progress
ICT disaster recovery	Work in progress
Business Rates and Council Tax	Work in progress
Environmental health	Work in progress
Risk management	Work in progress
Housing Benefits	Planning
Budgetary monitoring	Planning
Annual Governance Statement	Planning

### Final reports issued

Audit	Reported to Committee	Opinion
Crematorium governance	January 2023	Substantial Assurance
General Ledger	January 2023	Reasonable Assurance
Revenues and benefits	September 2022	Substantial Assurance
Payroll and employee overtime	September 2022	Reasonable Assurance
Sundry debtors and debt recovery	July 2022	Reasonable Assurance
Risk management	July 2022	Substantial Assurance
Cyber risk management	July 2022	Substantial Assurance
Creditors	July 2022	Substantial Assurance
Public sector decarbonisation	July 2022	No opinion (project risk review)

## Other work in 2022/23

Internal audit work has been undertaken in a range of other areas during the year, including those listed below.

- Certification of the Local Authority Test and Trace Support Payment Scheme grant was completed in July 2022. Work on the Contain Outbreak Management Fund (COMF) is ongoing.
- Regular discussion with management, including ongoing discussions linked to local government reorganisation and in respect of the financial based audits to help ensure work has sufficient coverage, for our 2022/23 opinion.
- Ongoing review of key documentation and meeting minutes to help inform our future work and provide insight for our annual audit opinion.
- Involvement in a number of the Local Government Reorganisation workstreams to help develop and understand new arrangements and share knowledge with Hambleton management and officers.
- We reviewed a draft of the 2021/22 Annual Governance Statement and shared our comments and suggestions for improvement to the deputy s151 officer which led to updates that were reflected in the final version presented to the September 2022 committee.

## APPENDIX B: SUMMARY OF FINDINGS FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

Audit	Opinion	Area reviewed	Date issued	Comments / Issues identified	Management actions agreed
General Ledger	Reasonable Assurance	<p>The General Ledger records all financial activity and is used to prepare the annual financial statements and support effective financial management. The Council uses Civica Financials as the General Ledger.</p> <p>The purpose of the audit was to ensure that:</p> <ul style="list-style-type: none"> <li>• Access to the ledger was appropriately restricted</li> <li>• Feeder systems are reconciled prior to upload</li> <li>• Processes and responsibilities for journals were appropriately defined</li> <li>• suspense accounts were monitored and cleared</li> <li>• Bank reconciliations were performed and authorised in line with Council rules</li> </ul>	October 2022	<p><b>Strengths:</b></p> <p>Access to the Civica Financials system is restricted to appropriate officers. Processes are in place to help ensure changes to access are reviewed and authorised.</p> <p>Feeder systems were reconciled prior to upload.</p> <p>Transactions posted to suspense accounts were being investigated and cleared out promptly in line with procedures.</p> <p><b>Areas for improvement:</b></p> <p>All journals above £25,000 should be authorised by another member of staff in Corporate Finance. There are no in-built ledger controls to prevent someone from posting a journal which had not been authorised. We noted five journals over £25,000 which had not been authorised prior to posting.</p> <p>At the time of the main fieldwork in August 2022, for the 2022/23 year to date, the expenditure bank reconciliation had not been performed due to prioritisation of other work. By October 2022 reconciliations to 8 August had been completed.</p>	<p><b>2 areas for improvement discussed and actions agreed with the Corporate Finance Manager.</b></p> <p>All of the journals which had not been authorised have subsequently been authorised.</p> <p>Since our fieldwork the Corporate Finance Manager ensured that expenditure bank reconciliations were brought fully up to date, and subsequent reconciliations to the end of the year have also been promptly completed.</p>



Audit	Opinion	Area reviewed	Date issued	Comments / Issues identified	Management actions agreed
				The income bank reconciliation had been completed and was up to date.	
Crematorium Governance	Substantial Assurance	<p>The Maple Park Crematorium opened for services in March 2022. The purpose of the audit was to ensure that:</p> <ul style="list-style-type: none"> <li>• Governance arrangements over the crematorium were in line with best practice and operating effectively.</li> <li>• A process was in place to effectively identify, document and respond to risks facing the crematorium and the Council.</li> <li>• The crematorium was operating in line with legislation and complied with relevant regulations.</li> </ul>	November 2022	<p><b>Strengths:</b></p> <p>Governance arrangements for the crematorium were robust and operating effectively. Arrangements were in line with the UK Corporate Governance Code (a best practice governance framework).</p> <p>A risk register is maintained and updated and shared with Council management quarterly. The register contains sufficient level of details and there is a risk reduction register in place to track progress against improvement actions.</p> <p>As part of Local Government Reorganisation (LGR) the governance of Council-owned companies is being considered. At both HDC and as part of LGR, there is good awareness of the specific risks in respect of the Crematorium, which included board composition and succession planning.</p> <p>Best practice guidance from the Federation of Burial and Cremation Authorities (FBCA) was used to help guide and support governance arrangements. The FBCA inspected the crematorium in May 2022 and gave a high level of compliance score. Two improvement areas were highlighted by the visit and steps have already taken steps to progress these.</p>	<p><b>1 area for improvement was agreed with the Crematorium Business Manager.</b></p> <p>Internal procedure notes will be developed by the 31 March 2023.</p>

Audit	Opinion	Area reviewed	Date issued	Comments / Issues identified	Management actions agreed
				<b>Area for improvement:</b> Internal procedure notes have not yet been developed for all processes performed at the crematorium.	



## APPENDIX C: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

Audit opinions	
Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.	
Opinion	Assessment of internal control
Substantial assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

There are circumstances when it is not appropriate to give an opinion/assurance level on completed work, for example on project and other support, consultancy, grant certification and follow up work. When **'no opinion'** is our conclusion this is not to be confused with a no assurance opinion.

Priorities for actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.