

**AUDIT & STANDARDS COMMITTEE**  
**22 July 2024**

<b>Title:</b> Internal Audit Annual Report 2023/24	
<b>Report of the Strategic Director, Resources</b>	
<b>Open Report</b>	<b>For Information</b>
<b>Wards Affected:</b> None	<b>Key Decision:</b> No
<b>Report Author:</b> Christopher Martin, Head of Assurance	<b>Contact Details:</b> Tel: 07870278188 E-mail: <a href="mailto:Christopher.Martin@lbbd.gov.uk">Christopher.Martin@lbbd.gov.uk</a>
<b>Accountable Strategic Leadership Director:</b> Jo Moore - Strategic Director, Resources	
<b>Summary</b>  This report outlines the Internal Audit work carried out for the year ended 31 March 2024.  The Internal Audit annual report contains the Head of Assurance Opinion based on the work undertaken in the year. This is “generally satisfactory with some improvements required”.	
<b>Recommendation(s)</b>  The Committee is recommended to note the contents of the report.	
<b>Reason(s)</b>  To provide an Internal Audit Opinion on the Council's framework of governance, risk management and control that helps to evidence the effectiveness of systems as set out in the Annual Governance Statement.	

**1 Internal Audit Annual Report 2023/24**

- 1.1 This report outlines the Internal Audit work carried out for the year ended 31 March 2024.
- 1.2 The report contains the Head of Assurance Opinion based on the work undertaken in the year. This is “*generally satisfactory with some improvements required*”. Most work was complete at the time of publishing this report.
- 1.3 The Internal Audit Annual Report is set out at Appendix 1.

## **2 Legal Implications**

*Implications completed by: Dr Paul Feild, Senior Governance Solicitor*

- 2.1 The Accounts and Audit (England) Regulations 2015 section require that: a relevant authority must ensure that it has a sound system of internal control which—facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.
- 2.2 Furthermore the Director of Finance has a statutory duty, under Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985, to ensure that there are proper arrangements in place to administer the Council's financial affairs.
- 2.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against it. We will enhance our provision further by making best use of existing legislation, for example the Proceeds of Crime Act 2002, to ensure that funds are recovered, where possible by the Council.

## **3 Financial Implications**

*Implications completed by: Michael Bate, Deputy S.151 Officer*

- 3.1 Internal Audit is fully funded as part of the Council's Finance Service. It is a key contribution to the overall management and control of the Council and its stewardship of public money. The recommendations and improvements as a result of its findings will be implemented from within existing resources. There are no further financial implications arising from this report.
- 3.2 Should there be any new financial impact such as need for additional funding to implement the recommendations, proper delegations to seek approval will need to be followed in line with the Council's constitution.

## **4 Other Implications**

- 4.1 **Risk Management** – Internal Audit activity is risk-based and therefore supports effective risk management across the Council.
- 4.2 No other implications to report

### **Public Background Papers Used in the Preparation of the Report:**

- None

### **List of appendices:**

- Appendix 1: Internal Audit Annual Report 2023/24

# Appendix 1: Internal Audit Annual Report 2023/24

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## 1. Introduction

This report outlines the work that Internal Audit has carried out for the year ended 31 March 2024.

The Public Sector Internal Audit Standards require the Chief Audit Executive (Head of Assurance) to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit & Standards Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The 2023/24 Internal Audit Plan, approved by the Audit and Standards Committee, included 48 audits, consisting of 35 risk and compliance audits, 10 school audits and a project to follow-up prior year work in schools. 44 audits were delivered, consisting of 33 risk and compliance audits, 10 audits of schools and the schools' follow-up work. Reasons for variations in the plan were reported quarterly to the Audit and Standards Committee.

Internal Audit work was performed in accordance with the Public Sector Internal Audit Standards.

## 2. Head of Assurance Opinion

I am satisfied that sufficient Internal Audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

My opinion is based on:

- All audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Any significant recommendations not accepted and/or addressed by management and the resulting risks.
- The effects of any significant changes in the organisation's objectives or systems.
- Any limitations which may have been placed on the scope or resources of internal audit.
- What proportion of the organisation's audit needs have been covered to date.

My opinion is as follows:

**Generally satisfactory with some improvements required.**

Governance, risk management and control in relation to business-critical areas is generally satisfactory. However, there are some areas of weakness and non-compliance in the framework of governance, risk management and control which potentially put the achievement of objectives at risk.

Some improvements are required in those areas to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

An explanation of the types of opinion that may be given can be found in Appendix 2.

I would like to take this opportunity to thank Council officers for their co-operation and assistance provided during the year.

### **3. The 2023/24 Internal Audit service**

The in-house team consisted of four substantive posts - an Audit Manager, a Principal Auditor and two Apprentice Auditors. One of the Audit Apprentices joined the team during the year and this post was created by temporarily amending a second existing Principal Auditor post to be that of an Apprentice. The Head of Assurance is the Council's Chief Audit Executive and splits his time between Internal Audit, Counter Fraud, Insurance, Risk Management and Information Risk.

The Internal Audit service continued to be supported throughout 2023/24 by Mazars through the Council's contract with LB Croydon (the 'Apex' framework) and PwC via the contract with LB Barnet (the 'CCAS' framework).

Internal Audit has remained independent of the business in 2023/24. As detailed in the Internal Audit Strategy, additional safeguards have been put in place over areas for which the Head of Assurance is operationally responsible.

#### **4. 2023/24 Internal Audit work conducted**

The approved 2023/24 internal audit plan consisted of:

- 37 risk and compliance internal audits.
- 11 audits of schools including a follow-up project of prior year work in schools.

Two risk and compliance audits were added to the plan in the year as follows:

- Anonymous Recruitment – added in Q3 to address emerging risks around the recruitment process.
- RSL Health & Safety Compliance – added in Q3 for an independent assessment of My Place progress against Regulator concerns.

The following six risk and compliance audits were deferred or cancelled as follows:

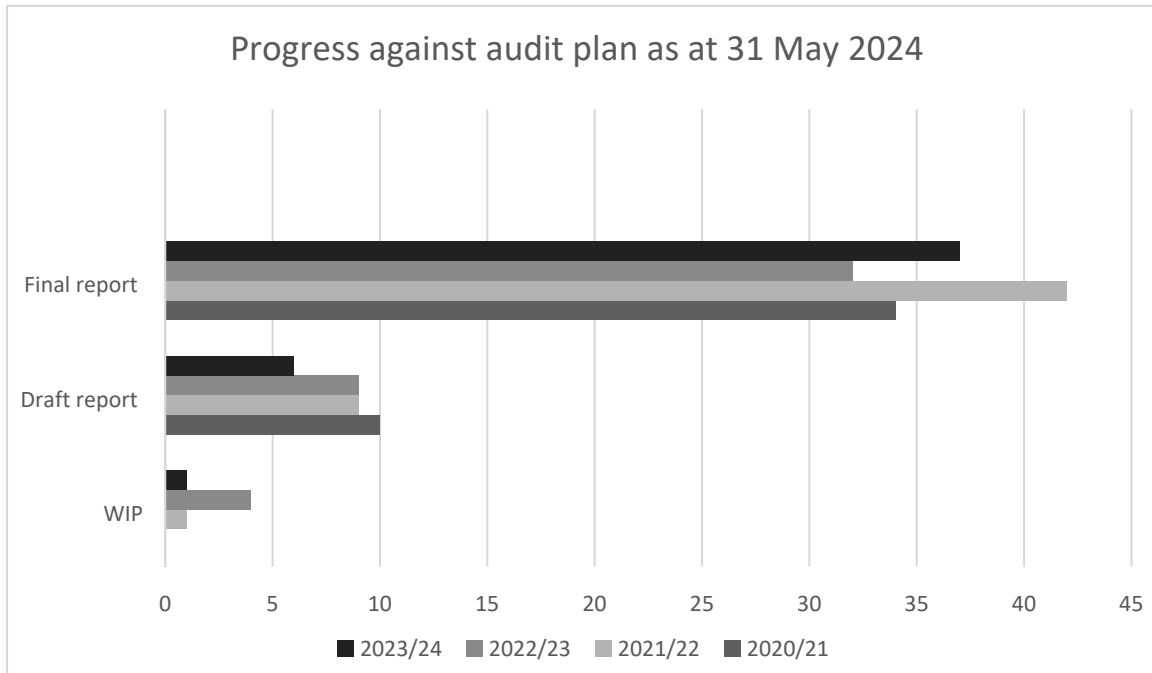
- Environmental, Social and Governance – deferred to 2024/25 in Q3 to allow sufficient time for policy development.
- Damp & Mould – deferred to 2024/25 due to scope overlaps with the RSL Health & Safety Compliance audit.
- Fire Safety Compliance – deferred to 2024/25 due to scope overlaps with the RSL Health & Safety Compliance audit.
- Housing Rent Setting & Adjustment - deferred to 2024/25 in Q4 to allow for DWP corrections to be made to the system.
- Housing Repairs & Maintenance – deferred to 2024/25 in Q4 to allow for implementation of the BDMS Improvement Plan.
- General Ledger & Budgetary Control - deferred to 2024/25 in Q4 because of capacity limits.

#### **5. Progress against audit plan**

Of the resulting 44 audits (33 risk and compliance and 11 audits of schools), as at 31 March 2024, 18 were at final report and 17 at draft report stage with 9 still work in progress. The total of 80% at report stage met the performance target exactly.

During April and May 2024, further progress was made in finalising draft reports meaning that, as at 31 May 2024, 38 were at final report, 5 at draft report stage and 1 work in progress. This fell marginally short the target of 100% to have reported by this date due to the late stage of the year when significant additional pieces of work were required to be undertaken as well as staffing changes at senior levels requiring input to our work. All work has since been completed.

Progress Status	2023/24 31 May 2024		2022/23 31 May 2023		2021/22 31 May 2022		2020/21 31 May 2021	
Final Report	38	86%	32	71%	42	81%	34	77%
Draft Report	5	12%	9	20%	9	17%	10	23%
WIP	1	2%	4	9%	1	2%	0	0%
TOTAL	44		45		52		44	



## 6. Results of the Internal Audit work

### Risk and Compliance audits

Internal Audit reports include a summary level of assurance using the following scale:

- Substantial Assurance
- Reasonable Assurance
- Limited Assurance
- No Assurance
- N/A – where projects are advisory in design

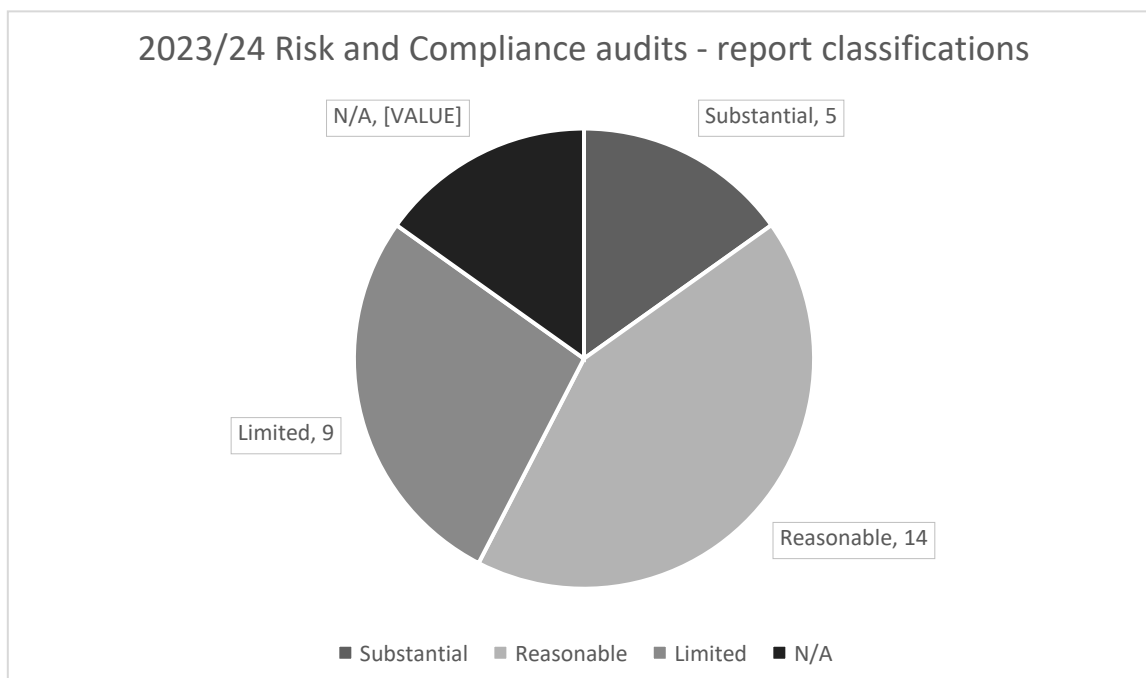
Internal Audit findings are categorised Critical, High, Medium and Low risk depending upon the impact of the associated risk attached to the recommendation.

Definitions of the ratings can be found at Appendix 3.

The table below sets out the results of our 33 risk and compliance 2023/24 internal audits:

Audit	Opinion	Number of Findings			
		Critical	High	Medium	Low
Commercial Rents	Limited Assurance	0	1	1	0
Gifts & Hospitality	Limited Assurance	0	1	2	0
Systems Logical Access Review	Limited Assurance	0	1	3	0
Accounts Payable	Limited Assurance	0	3	0	0
Health & Safety Team	Limited Assurance	0	2	3	2
Onboarding Process	Limited Assurance	0	2	2	2
Planning & Building Control	Limited Assurance	0	1	4	0
Land & Building Valuations	Limited Assurance	0	1	2	0
Antivirus & Malware	Limited Assurance	0	1	1	0
Accounts Receivable	Reasonable Assurance	0	0	1	0
Health & Safety Compliance	Reasonable Assurance	0	0	0	0
Payroll	Reasonable Assurance	0	1	1	0
Settlement Agreements - Between Council and its staff	Reasonable Assurance	0	0	1	2
Cost of Living Crisis	Reasonable Assurance	0	0	1	2
Special Education Needs & Disability - Operational	Reasonable Assurance	0	0	1	0
Council Tax	Reasonable Assurance	0	0	1	0
Workforce Governance	Reasonable Assurance	0	0	3	0
Access To Work - By Staff	Reasonable Assurance	0	0	2	0
Development of Civil Society	Reasonable Assurance	0	0	2	0
Third Party IT Contracts	Reasonable Assurance	0	0	1	1
Pension Administration	Reasonable Assurance	0	1	1	0
Identity & Access Management	Reasonable Assurance	0	0	3	0
Asset Management	Reasonable Assurance	0	0	3	0

NNDR	Substantial Assurance	0	0	1	0
Value Added Tax	Substantial Assurance	0	0	0	0
Community Hubs Programme	Substantial Assurance	0	0	0	0
Social Value in Procurement	Substantial Assurance	0	0	0	0
Mayor's Charity Account	Substantial Assurance	0	0	0	0
BDMS Performance Improvement Plan	N/A	0	3	1	0
Grant Claims	N/A	0	0	0	0
Anonymous Recruitment Process Review	N/A	0	0	0	0
Payment Card Industry Data Security Standard	N/A	0	0	0	0
Working Patterns	N/A	0	0	0	0
<b>Total</b>		<b>0</b>	<b>18</b>	<b>41</b>	<b>9</b>





We issued nine Limited Assurance opinions in the year as follows:

<b>Title</b>	<b>Summary of findings and current progress to address reported high-risk findings</b>
<p><b>Commercial Rents</b></p> <p>The objective of this audit is to evaluate the design and test the operating effectiveness of key controls in place over Commercial Rents.</p>	<p><b>Limited Assurance</b></p> <p>This review identified that there is no contract in place for the relationship between the Council and the external chartered surveyor. This leaves the Council with no confirmation of the checks they are undertaking on prospective tenants or of the commercial terms these are being completed under. The Council also has to rely on the RICS standard terms to seek damages in the event of a dispute and this may limit the Council's ability to hold the surveyors to account.</p> <p>This review identified one high risk action:</p> <ul style="list-style-type: none"> <li>• Management will ensure that a formal agreement is in place for the use of external parties in the rent process. The agreement will outline clear roles and responsibilities, be signed and agreed by both parties and subject to review and sign-off on a regular basis.</li> </ul> <p><i>Agreed action due for completion: 31 July 2024.</i></p>
<p><b>Gifts &amp; Hospitality</b></p> <p>The objective of this audit was to evaluate the control design and test the operating effectiveness of key controls in place relating to administration of gifts and hospitality for staff.</p>	<p><b>Limited Assurance</b></p> <p>Internal Audit established that the process for declaring gifts and hospitalities had moved online in 2015 from a previously manual form completion process. The e-form was intended to populate a register of gifts and hospitalities but at the time of the audit it was clear that the form was no longer active and had not been available on the Council's intranet for some time.</p> <p>This review identified one high risk action:</p> <ul style="list-style-type: none"> <li>• Management should look to re-establish a corporate electronic recording system to enable staff declare and report gifts and hospitality offered along with actions taken. An offline equivalent should be made available to those who do not have access to the intranet.</li> </ul> <p><i>Agreed action completed May 2024.</i></p>
<p><b>Onboarding Process</b></p> <p>The objective of the review was to assess the operating effectiveness (as opposed to the design) of the controls in place to ensure that the</p>	<p><b>Limited Assurance</b></p> <p>All new staff have a probationary period at the start of their employment, typically of six months. Review meetings are expected to take place with the employee's manager after one, three and five months and a report should be written to confirm this meeting has been held. If at the end of the six-month probationary period, the manager is satisfied with the performance of the new joiner, they should notify the HR Service Desk to confirm the permanent appointment of the new employee and attach an End of Probation Form. Managers are prompted by an automatic reminder on the Emboarder workflow to schedule probation meetings at</p>

<p>Council properly oversees the onboarding of new starters.</p>	<p>these one, three- and five-month periods.</p> <p>Internal Audit attempted to review a sample of five employees and found that evidence of reports from the probationary reviews could not be located. In addition, confirmation letters sent on behalf of the Council to communicate permanent employment could not be evidenced for any of the sample.</p> <p>This review identified two high risk actions:</p> <ul style="list-style-type: none"> <li>• Management should conduct an overarching review to determine if the system is working as intended and implemented changes to process and workflow where necessary.</li> <li>• Training should be provided to line managers to support them through the completion of the probationary period forms. This should include the expectations on formal check ins and documentation to be retained as part of the probationary reviews and confirmation of completion.</li> </ul> <p><i>Agreed actions due for completion: 30 September 2024.</i></p>
<p><b>Planning and Building Control</b></p> <p>The objective of this audit was to provide assurance over the adequacy and effectiveness of current controls in place for the delivery of planning and building control functions</p>	<p><b>Limited Assurance</b></p> <p>Key-Person Dependency describes when an organisation relies too heavily on the knowledge or ability of one person. It's a risky situation for any organisation, especially when it comes to decision making and service delivery.</p> <p>Audit established that the only post in the establishment to approve planning applications is the Council's Head of Planning &amp; Assurance. The planning decision making process is entirely dependent on her availability to Be First.</p> <p>This review identified one high risk action:</p> <ul style="list-style-type: none"> <li>• The Councils management should consider an alternative post / position to approve planning applications under delegated authority in the absence of the Council's Head of Planning &amp; Assurance</li> </ul> <p><i>Agreed action due for completion: 30 September 2024.</i></p>
<p><b>Land &amp; Building Valuations</b></p> <p>The objective of this audit is to evaluate the control design and test the operating effectiveness of key controls in place over Land and Building Valuations.</p>	<p><b>Limited Assurance</b></p> <p>The Council use an external party to carry out all property survey valuations and function as the Council's letting agent. This arrangement has been in place for 20 years and is based on the Royal Institute of Chartered Surveyors (RICS) terms of business. A description of the process was provided by the external party as part of this audit. However, there was no documented SLA or contract agreement in place for the relationship between the Council and the external chartered surveyor. The Council has limited assurance of the standard of service it is receiving and its ability to hold any external parties to account as part of this relationship as a result.</p>

	<p>This review identified one high risk finding:</p> <ul style="list-style-type: none"> <li>The Council will ensure that a formal agreement/contract is in place for the use of an external parties in land and building valuations process. This will outline clear roles and responsibilities as well as deliverables and be signed and agreed by both parties.</li> </ul> <p><i>Agreed action due for completion: 30 September 2024.</i></p>
<p><b>Antivirus &amp; Malware</b></p> <p>The objective of the review was to provide assurance that the Council has effective controls in place in relation to the management of Antivirus and Malware.</p>	<p><b>Limited Assurance</b></p> <p>While the Council has defined Mobile Device Management (MDM) and Mobile Application Management (MAM) criteria in both the Mobile Device Configuration Policy and the Mobile Device Patching Policy, gaps in these areas were identified.</p> <p>This review identified one high risk action:</p> <ul style="list-style-type: none"> <li>Address the gaps identified in the report.</li> </ul> <p><i>Agreed action due for completion: 31 October 2024.</i></p>
<p><b>Systems Logical Access Review</b></p> <p>The objective of the review was to provide assurance that the Council has effective controls in place in relation to the management of logical access to key IT applications. The IT applications considered to be in scope are Capita Housing, NEC Enterprise EDMS, and Liquidlogic.</p>	<p><b>Limited Assurance</b></p> <p>User Access to a system should only be granted after authorised approvals have been received in a timely manner, to ensure access provisioned is sufficient and appropriate. During the internal audit, we conducted sample assessments across the three systems to evaluate their access management processes, and noted the following:</p> <ul style="list-style-type: none"> <li>NEC Enterprise: of 10 selected samples of new users, approvals were lacking for 5.</li> <li>Capita Housing: of 12 selected samples of new users, approvals were lacking for 1.</li> <li>Liquidlogic: of 7 selected samples of new users, approvals were lacking for 1.</li> </ul> <p>This review identified one high risk action:</p> <ul style="list-style-type: none"> <li>The systems teams should verify whether the individuals identified as exceptions legitimately require access to systems and possess the necessary access rights. If it is determined that these users should not have access, mitigating actions should be implemented, including revoking their access and analysing audit trails for any unauthorised activities. In addition, the Council should reinforce adherence to the approval process for granting access to new users,</li> </ul> <p><i>Agreed action due for completion: 30 August 2024.</i></p>
<p><b>Accounts Payable</b></p> <p>The objective of this</p>	<p><b>Limited Assurance</b></p>

audit was to evaluate the control design and test the operating effectiveness of key controls in place relating to the Accounts Payable process.

Testing identified that there is a lack of control in place around the approval of new suppliers. New supplier requests should be made by the services using a form on e5 which would then be routed to the requesting officer's Manager / Budget Holder for approval and then onto the AP team with supporting documentation for processing. The budget holder approval step has not been configured into the e5 system and instead the requests are submitted directly to the AP team to approve and set-up. The AP team are currently approving but have no knowledge of the supplier or if the details supplied are appropriate.

Requests for supplier amendments are made via a form which is completed and signed off by the requestor and emailed to the Accounts Payable team alongside supporting documentation to validate the change. Audit requested a report from E5 of all changes to supplier standing data but were unable to obtain an appropriate report for sampling. This meant that we were unable to sample test changes to standing data including changes to bank details. Management confirmed that there is no exception reporting on changes to supplier standing data or any form of periodic monitoring of changes.

The AP system allows users to request a Sundry Payment such as a refund or a payment to an individual where an invoice is not available. The system allows users to input any information and description in the system field to force the payments through allowing duplicate payments for some transactions.

This review identified three high risk findings:

- The Council should consider updating e5 to ensure approvals by budget holders are part of the workflow for the setup of new suppliers. In the interim the Council will reinforce with staff that requests for new suppliers on e5 should be supported by relevant documents (including budget holder approval) being emailed to the AP team.
- The Council should engage with e5 to develop a report that is sufficient to allow identification of changes to supplier data. Management should conduct a monthly sample check of changes to ensure they are appropriate.
- Management should review the process in place and incorporate a validation process before payments are processed.

*Agreed action due for completion: 30 September 2024.*

<p><b>Corporate Health &amp; Safety</b></p> <p>The objective of the review was to assess the operating effectiveness (as opposed to the design) of the controls in place to ensure that LBBD properly oversees the implementation of Health &amp; Safety requirements and reporting across the Council.</p>	<p><b>Limited Assurance</b></p> <p>Council Service areas should complete a quarterly return on Health and Safety to the Corporate Health and Safety team within the timeframes laid out in policy and within the email distributed by the team. Internal Audit sought to confirm that services complete a quarterly return on Health and Safety to the Corporate Health and Safety Team. The accuracy and completeness on Health and Safety reporting to the Assurance Board is dependent on the information provided by service line managers quarterly. We were advised that this is compromised by consistent non-submission of returns noted in Assurance Board reports as a non-return for a select few service areas.</p> <p>Information provided by Services for Quarterly returns should be supported by reliable evidence or data as per information requested by the Corporate Health and Safety team. Managers submitting returns confirm that specific local plans and procedures are in place but no corroborating evidence of this is requested by Health &amp; Safety. Further, none of the service managers contacted by Internal Audit could provide the requested evidence when challenged.</p> <p>This review identified two high risk findings:</p> <ul style="list-style-type: none"> <li>• Management should seek from Assurance Board a formal process for escalating non-returns, particularly in instances where non-returns are a recurring issue.</li> <li>• The Corporate Health and Safety team should require further details of Live Leadership Check and Plans and accompanying documentation as part of the quarterly returns process. A copy of the plan's should be attached to the quarterly return submitted to the Corporate Health and Safety team to substantiate the tick box.</li> </ul> <p><i>Agreed action due for completion: 30 September 2024.</i></p>
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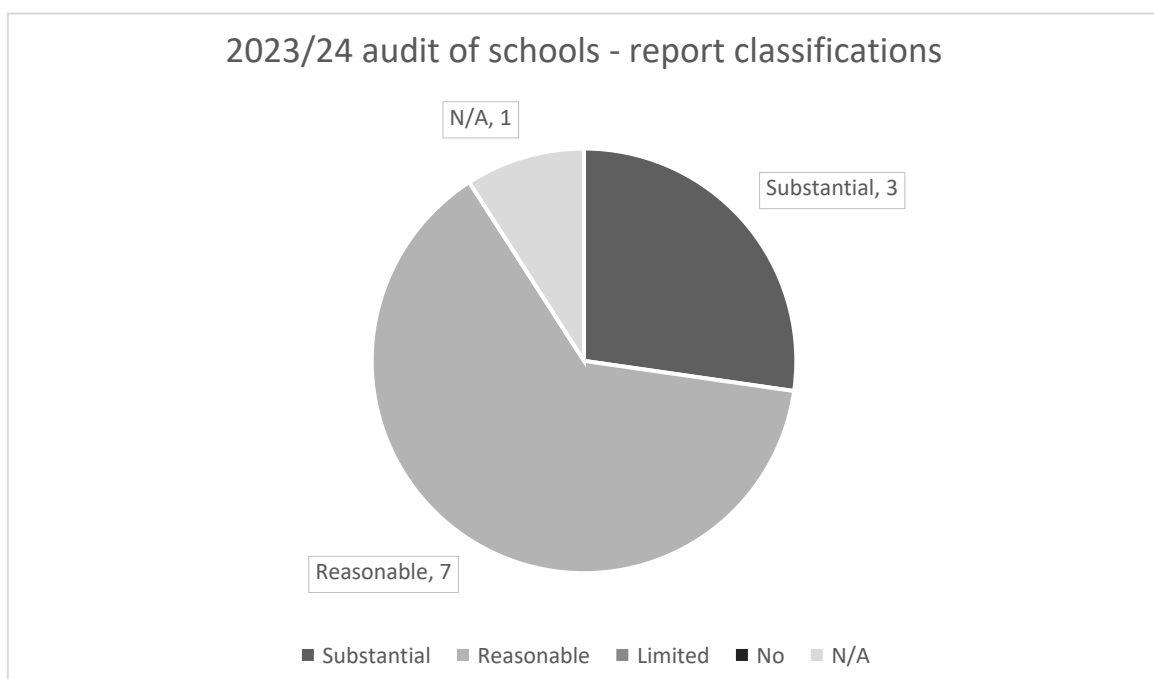
A critical risk is defined as requiring immediate and significant action. A high risk is defined as requiring prompt action to commence as soon as practicable where significant changes are necessary. Management are expected to implement all critical and high-risk recommendations by the agreed target dates. Internal Audit tracks management progress by way of a chase up or follow up to the audit client accordingly. Slippage in implementing agreed actions does occur and requires management to instigate revised targets and consider ways to mitigate the identified risks.

### **Audits of Schools**

Schools within the Borough are audited on a risk basis. The objective of these audits is to ensure that the schools have adequate and effective controls with regards to the financial management and governance of the school.

The table below sets out the results of the 2023/24 Internal Audit work auditing 10 schools:

School	Opinion	Number of findings			
		Critical	High	Medium	Low
Grafton Primary School	Reasonable	0	0	4	0
George Carey Church of England Primary School	Reasonable	0	0	1	0
Hunters Hall Primary School	Substantial	0	0	1	0
Jo Richardson Community School	Reasonable	0	0	3	1
Ripple Primary School	Reasonable	0	0	5	0
Roding Primary School	Reasonable	0	0	3	0
Thomas Arnold Primary School	Substantial	0	0	0	0
Robert Clack School	Substantial	0	0	0	0
Becontree Primary School	Reasonable	0	0	4	0
Richard Alibon Primary School	Reasonable	0	0	5	1
Follow-up of prior year work	-	-	-	-	-
<b>TOTAL:</b>		<b>0</b>	<b>0</b>	<b>26</b>	<b>2</b>



We issued no “Limited Assurance” school reports in the year.

## 7. Internal Audit Performance

Purpose	Target	Performance & RAG Status	What it measures
<b>Output Indicators (Efficiency)</b>			
% of 2023/24 Audit Plan completed (Audits at draft report stage)	>25% by 30/09/23	15% - RED	Delivery measure
	>50% by 31/12/23	36% - RED	
	>80% by 31/03/24	100% - GREEN	
	100% by 31/05/24	98% - AMBER	
Meet standards of Public Sector Internal Audit Standards	'Generally Conforms' from annual review	Confirmed * - GREEN	Compliant with professional standards
<b>Outcome Indicators (Effectiveness - Adding value)</b>			
Overall Client Satisfaction	> 85% satisfied or very satisfied over rolling 12-month period	100% - GREEN	Customer satisfaction

\* Internal Audit for 2023/24 was being provided by a combination of the in-house team, Mazars LLP and PwC LLP. The in-house team underwent an External Quality Assessment in 2023/24 and were awarded the highest rating. External teams have confirmed ongoing compliance with the Public Sector Internal Audit Standards.

### **Quality and improvement programme**

Internal Audit quality has been maintained through adequate supervision and review processes in the year.

Quality and consistency has been improved through the implementation of all recommendations made during the External Quality Assessment.

Plans are in place to strengthen quality in 2024/25 particularly through further recruitment to the in-house team.

## 8. Appendices

### **1: Limitations inherent to the Internal Auditor's work**

We have undertaken internal audit subject to the following limitations:

- **Internal control:** Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overruling controls and the occurrence of unforeseeable circumstances.
- **Future periods:** Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the following risks:
  - The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes.
  - The degree of compliance with policies and procedures may deteriorate.

### **Responsibilities of management and Internal Auditors**

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

### **Opinion**

My opinion is based solely on the work undertaken as part of the agreed Internal Audit plan and agreed changes thereto. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence, management and the Audit & Standards Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.









## 2: Opinion types

The table below sets out the types of opinion that I have considered, along with an indication of the types of findings that may determine the opinion given. I apply my judgement when determining the appropriate opinion, so the guide given below is indicative rather than definitive.

Opinion	Indication of when this type of opinion may be given
<b>Satisfactory</b>	<ul style="list-style-type: none"> <li>• A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and</li> <li>• None of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Generally satisfactory with some improvements required</b>	<ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual assignments that are <b>not significant in aggregate</b> to the system of internal control; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <b>isolated</b> to specific systems or processes; and</li> <li>• None of the individual assignment reports have an overall classification of critical risk.</li> </ul>
<b>Major improvement required</b>	<ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual assignments that are <b>significant in aggregate but discrete parts</b> of the system of internal control remain unaffected; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <b>significant in aggregate but discrete parts</b> of the system of internal control remain unaffected; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <b>not pervasive</b> to the system of internal control; and</li> <li>• A <b>minority</b> of the individual assignment reports may have an overall report classification of either high or critical risk.</li> </ul>
<b>Unsatisfactory</b>	<ul style="list-style-type: none"> <li>• High risk rated weaknesses identified in individual assignments that <b>in aggregate are pervasive</b> to the system of internal control; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <b>pervasive</b> to the system of internal control; and/or</li> <li>• <b>More than a minority</b> of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Disclaimer opinion</b>	<ul style="list-style-type: none"> <li>• An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either:               <ul style="list-style-type: none"> <li>- Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or</li> <li>- We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.</li> </ul> </li> </ul>

### 3: Definition of risk categories and assurance levels

Risk rating	
<b>Critical</b> 	<p>Immediate and significant action required. A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale &amp; service performance (e.g. mass strike actions); or</li> <li>• Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny (i.e. front-page headlines, TV). Possible criminal or high profile civil action against the Council, members or officers; or</li> <li>• Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members &amp; Senior Directors are required to intervene; or</li> <li>• Major financial loss, significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council. Critical breach in laws and regulations that could result in material fines or consequences.</li> </ul>
<b>High</b> 	<p>Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale &amp; performance of staff; or</li> <li>• Significant impact on the reputation or brand of the organisation. Scrutiny required by external agencies, inspectorates, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion; or</li> <li>• Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium-term difficulties; or</li> <li>• High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences.</li> </ul>
<b>Medium</b> 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale &amp; performance of staff; or</li> <li>• Moderate impact on the reputation or brand of the organisation. Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage; or</li> <li>• Significant short-term disruption of non-core activities. Standing orders occasionally not complied with, or services do not fully meet needs. Service action will be required; or</li> <li>• Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences.</li> </ul>
<b>Low</b> 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or</li> <li>• Minor impact on the reputation of the organisation; or</li> <li>• Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or</li> <li>• Handled within normal day to day routines; or</li> <li>• Minimal financial loss, minimal effect on project budget/cost.</li> </ul>
Level of assurance	
<b>Substantial</b> 	<p>There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.</p>
<b>Reasonable</b> 	<p>An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses, but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.</p>

<p><b>Limited</b></p> <p>●</p>	<p>There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.</p>
<p><b>No</b></p> <p>●</p>	<p>There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.</p>