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THURROCK COUNCIL

Audit Update

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1 September 2023



EXECUTIVE SUMMARY

The purpose of this paper is to;

- provide you with an update to progress for the 2020/21 audit process against the timeline previous presented to the Standards and Audit Committee (SAC)
- Report to you the impact of the Head of Internal Audit's opinions for the years ended 31 March 2022 and 31 March 2023

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31 MARCH 2021

Audit Progress

We are continuing to work through our revised risk assessment processes in order to provide an updated Audit Planning Report to the SAC. This has taken longer than anticipated due to the complex nature of the considerations and wide-ranging impact across the audit file.

Our procedures are ongoing to reconsider the risk assessment for the Council. A number of activities have taken place since our last meeting including:

- Consideration of the Best Value Inspection (BVI) report and the impact on the 2020/21 financial statements
- Initial review of the Councils working papers for Infrastructure assets, Intangible assets, Heritage assets and paper prepared for solar investments to ensure they meet the agreed requirements
- Consideration of audit testing completed to identify any additional procedures/testing required to meet current accounting, auditing and quality standards.

We will continue to draw these areas, alongside our revised risk assessment, to a conclusion and will provide the Committee with an updated report as soon as possible. This will be circulated separately if it does not fit into the planned committee cycle.

AUDITOR RESPONSIBILITIES

Reminder of Auditor Responsibilities under the Code of Audit Practice and International Standards on Auditing (UK)

Requirements of the 2020 Code of Audit Practice and Auditor Guidance Note 3 (AGN 03) *Auditors' Work on Value for Money (VFM) Arrangements*

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money arrangements) and report to you any identified significant weaknesses.

This is based on the following three reporting criteria:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** ('Improving 3Es') - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

From 31 March 2021, the key output from our audit work in respect of VFM arrangements is a commentary as reported in the Auditor's Annual Report, not a VFM arrangements 'conclusion' or 'opinion'. We are required to report all identified significant weaknesses in VFM arrangements and associated recommendations in our Auditor Report and our Auditor's Annual Report. There may also be matters referred to in our commentary that do not represent significant weaknesses in arrangements.



AUDITOR RESPONSIBILITIES

Reminder of Auditor Responsibilities under the Code of Audit Practice and International Standards on Auditing (UK)

International Standards on Auditing UK (ISAs)

We also have a responsibility under ISA (UK) 265: Communicating Deficiencies in Internal Control to Those Charged With Governance and Management, to report to you any matter that constitutes a significant deficiency in internal control and are of sufficient importance to merit your attention.

For purposes of the ISAs (UK), the following terms have the meanings attributed below:

(a) Deficiency in internal control - This exists when:

- (i) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
- (ii) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

(b) Significant deficiency in internal control - A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

YE 31 MARCH 2022

The Chief Internal Auditor's Annual Report - Year ended 31st March 2023 (including summarised report for Year ended 31st March 2022) was presented to the Standards & Audit Committee on 19 July 2023.

The Chief Internal Auditor provided a 'No Assurance' opinion for 2021/22 for governance, risk management and internal control as a result of the BVI report. The Chief Internal Auditor's opinion for 31st March 2022 was not issued until July 2023, therefore one year after the opinion would typically be issued. This reduces the effectiveness of the internal audit opinion, due to the reduction in timeliness of the information. There was no possibility for the Council or Those Charged With Governance (TCWG) to use the opinions and recommendations in the 2021/22 opinion to implement meaningful improvements in their arrangements for governance, risk management and internal for the 2022/23 financial year.

The delay in the Chief Internal Auditor's opinion for 2021/22 therefore constitutes a **significant deficiency** under ISA (UK) 265 as there has been no timely opportunity to consider this monitoring of controls.

Similarly, AGN03 defines a significant weakness as one which 'leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service', or 'identifies a failure to take action to address a previously identified significant weakness'. The delay in the 2021/22 internal audit opinion had the potential to lead to a significant impact on the quality or effectiveness of service delivery, as the Council could not remedy the findings for 2022/23, and the same impact is a result of the issue of a 'failure to take action to address a previously identified significant weakness'.

Therefore, the delay in the opinion constitutes a **significant weakness in Governance arrangements** in accordance with AGN03.

Recommendation: Ensure sufficient Internal Audit work is timetabled to provide assurance of monitoring of internal controls to TCWG.

YE 31 MARCH 2023

The Chief Internal Auditor's Annual Report - Year ended 31st March 2023 (including summarised report for Year ended 31st March 2022) was presented to the Standards & Audit Committee on 19 July 2023.

For 2022/23 financial year the Chief Internal Auditor was unable to provide any opinion on governance, risk management and internal control due to resourcing issues within the Internal Audit department.

With regards to ISA (UK) 265, internal audit assurance is seen as a key process in monitoring the effectiveness of an entity's governance, risk management and internal control. In the absence of an internal audit opinion on these factors of the control environment, there is no independent assurance over the effectiveness of monitoring of these controls.

There is therefore a **significant deficiency** in internal controls for 2022/23 year end.

With regards to AGN03, paragraph 17 states that in local government, organisations are required to have arrangements in place to ensure proper governance, resource and risk management, and internal controls, and to report on the design and operation of those arrangements through annual governance statements. The absence of an internal audit opinion on these arrangements therefore results in an absence of independence monitoring and assurance, which is a significant control deficiency.

The absence of an internal audit opinion on governance, risk management and internal controls, certainly may expose the body to financial risk, the quality or effectiveness of services, may lead to unlawful actions, and may lead to a failure to take action on previously identified significant weaknesses. The 2021/22 internal audit opinion gave a 'No assurance' opinion on all three areas, and the lack of any opinion for 2022/23 removes the ability for independent assurance or monitoring.

The absence of an internal audit opinion for 2022/23 results in a **significant weakness in Governance arrangements** in accordance with AGN03.

Recommendation: Ensure sufficient Internal Audit programme is timetabled to provide assurance of monitoring of internal controls to TCWG and compliance with Public Sector Internal Audit standards.



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IMPACT ON AUDIT PROCEDURES

Internal Audit is a key function we consider when assessing the control environment that an entity operates in. We will therefore need to fully assess and document the impact of Internal Audits 2021/22 'No Assurance' opinion and 2022/23 where no opinion was provided.

The likely areas that this will impact will be:

- Consideration of entity level controls and how they operate and are monitored
- Any other indicators of controls not designed and operating effectively, and adequate monitoring not taking place to consider this
- Consideration of elevated levels of risk for audit procedures in specific financial statement areas
- Alternative/additional procedures to cover gaps in monitoring from IA opinions
- Review of Councils own recovery and action plans in response to the intervention, BVI report and Internal Audit opinions as well as any other relevant Internal Audit reports

We will also need to report the significant weaknesses in the relevant audit opinions and follow up on progress against recommendation made.

FOR MORE INFORMATION:

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