

Date of Meeting 19 July 2023	ITEM:
Standards & Audit Committee	
Report Title: Chief Internal Auditor’s Annual Report – Year ended 31st March 2023 (including summarised report for Year ended 31st March 2022)	
Wards and communities affected: All	Key Decision: Non-key
Report of: Gary Clifford – Chief Internal Auditor	
Accountable Director: Asmat Hussain – Interim Director of Legal & Governance and Monitoring Officer	
This report is Public	

Executive Summary

Under the Public Sector Internal Audit Standards, the Chief Internal Auditor is required to provide the Section 151 Officer and the Council with an opinion on the adequacy and effectiveness of the organisation’s governance, risk management and control arrangements. In giving this opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is a reasonable assurance that there are no major weaknesses in the risk management, governance and control processes.

The audit opinions that are provided on a review-by-review basis during the year, and are presented to the Standards & Audit Committee as part of the regular internal audit progress reports, together with advisory reports and assurance provided by other external sources during the year, form part of the framework of assurances that assist the Council in preparing an informed Annual Governance Statement (AGS).

In September 2022, following concerns around the Council’s investment portfolio and levels of debt, the Secretary of State for Levelling Up, Housing and Communities announced a package of intervention which had 2 parts. The first was Essex County Council being appointed as Commissioners to oversee the financial management of the Council. The second, and running parallel to this, was that Essex County Council were appointed as Best Value Inspectors to inspect the governance, audit, risk management and overview and scrutiny functions of the Council. This was originally due to be reported to the Secretary of State on 3rd January 2023 but an extension was agreed to 17th February 2023. The Best Value (BV) Report was published on 15th June.

The initial intervention resulted in the Council, working together with the Commissioners, developing an Improvement and Recovery Plan with 5 key themes:

- Theme 1 – Financial Sustainability
- Theme 2 – Governance and Scrutiny
- Theme 3 – Strategic Direction
- Theme 4 – Place Leadership and Growth
- Theme 5 – Leadership and Culture

Internal Audit forms one of the workstreams under the Governance and Scrutiny theme.

In December 2022, the Council's Section 151 Officer issued a Section 114 notice, as the Council could not meet its budget for 2022/23 or 2023/24 due to its financial situation. As a result, all but essential spend was suspended.

In March 2023, the Secretary of State expanded the intervention package. This included the appointment of Dr David Smith as the Managing Director Commissioner and increased powers for Commissioners over: employment matters related to senior managers; the Council's staff structure and operating model; and functions relating to scrutiny and transparency of strategic decision-making.

It was agreed with the Commissioners that the 2022/23 annual opinion be deferred until after publication of the BV report, which was 15th June 2023. However, it was already clear, even prior to the release of the BV report, that there were serious issues around the governance, risk management and internal control frameworks and these have been taken into account in the opinions provided.

This report has been split into 2 sections. The first part of the report is a summary to cover off the 2021/22 audit opinion which did not get presented last year. The opinion for 2021/22 was delayed due to low resourcing of the Internal Audit team. The report was subsequently deferred to September 2022 but following Intervention of the Secretary of State, it was agreed that further work was required with the Commissioners in place. The second part is the 2022/23 opinion.

The financial year 2021/22 continued to be challenging for all services provided by the Council due to the on-going impact of the Coronavirus COVID-19 pandemic. Resources were also an issue for Internal Audit and this was exacerbated in 2022/23 when the remaining staff left. This impacted on the total number of assurance reports issued as final and the Chief Internal Auditor has also taken this into account when reaching his judgement on the overall opinions provided around the governance, risk management and internal control frameworks.

Commissioner Commentary

1. Recommendation(s)

1.1 That the Standards & Audit Committee considers and comments on the Chief Internal Auditor's Annual Report – Year ended 31st March 2023 (including summarised report for Year ended 31st March 2022).

2. Introduction and Background

- 2.1 The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is therefore a key part of Thurrock Council's internal control system and integral to the framework of assurance that the Standards & Audit Committee can place reliance on to assess the Council's internal control system.
- 2.2 The Accounts and Audit Regulations 2015 require that a relevant authority 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 or guidance. This responsibility has been delegated to the Interim Director of Finance and Section 151 Officer under the Council's Executive Scheme of Delegation and is delivered through the Chief Internal Auditor.
- 2.3 In April 2013, a revised standard for Public Sector Internal Audit Standards (PSIAS) came into effect, compliance against which is seen as fundamental to demonstrating the adequacy and effectiveness of internal audit, in order to meet statutory requirements as set out in the Accounts & Audit (England) Regulations 2015. The procedures and practices that Internal Audit operates are designed to reflect adherence to these standards. However, resourcing issues during the two years' being reported on, has resulted in the service not being in a position to undertake an internal self-assessment of its compliance to the Standards.
- 2.4 The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.

3. Issues, Options and Analysis of Options

Summarised Chief Internal Auditor's Report for 2021/22

For the 12 months ended 31 March 2022, based on the work undertaken, the Chief Internal Auditor's opinion below details the adequacy and effectiveness of the organisation's governance, risk management and internal control arrangements.

- 3.1 In March and September 2021, the Standards & Audit Committee were updated by the then Corporate Director of Resources and Place Delivery on the performance and financial issues around the investments and major projects. At the September meeting, one of the co-opted members of the Committee did challenge the Director on the investments and “whether he was comfortable with the level of concentration in one sector?” His response was that “he was happy that the Council had deliberately gone towards renewable energy and was very comfortable and very supportive of that”. There was no further challenge. The messages at these meetings were always positive, so this was accepted, and opportunities were missed to challenge the veracity of the reports being presented. The issues around the programme of works around the major contracts was on-going.

Based on outcomes from the Intervention, BV report and the above comments, my overall opinion on governance for 2021/22 is **Red** which is a No Assurance opinion.

- 3.2 Based upon my assessment of the Council’s current position from reports provided to the Standards & Audit Committee, it was clear that the Council’s arrangements around risk management were not progressing due to the lack of resources being invested in it. This comprised one officer who also had operational responsibility over another service area. Whilst the corporate risk management framework and processes appeared to be robust, the Council still needs to do more at the operational/service planning level to embed risk management into the everyday operations and decision making of the Council.

Based on outcomes from the Intervention, BV report and the above comments, my overall opinion on risk management for 2021/22 is **Red** which is a No Assurance opinion.

- 3.3 During 2021/22, Internal Audit issued 11 reports, of which 10 received positive assurance opinions. These were: Accounts Payable; Country and Active Parks; Housing Planned Maintenance; Fleet; Child Social Care Commissioning; Play Area Maintenance; Housing Rents; Street Cleaning; HR Induction and Probation (on-boarding); and Premises Licencing.

1 report on Highways Maintenance – Traffic Management received an Amber/Red (negative) assurance opinion. All the above reports were presented to the Standards & Audit Committee.

Internal Audit also reported changes to the plan. A review of Financial Sustainability was scheduled in the 2021/22 plan. The service area requested a deferral of this planned audit because it was too busy working on the final accounts process. As Internal Audit was aware of resourcing issues for both the External Auditor and the service area, this deferral was agreed and reported to Standards & Audit Committee at its meeting on 25th November 21.

In addition, Internal Audit continued to undertake work to confirm spend around grants and 20% random sampling of payment by result claims made as part of the Troubled Families Programme.

The issues around the major contracts and projects was on-going.

Based on outcomes from the Intervention, BV report and the above comments, my overall opinion on internal control for 2021/22 is **Red** which is a No Assurance opinion.

Overall Chief Internal Auditor's Opinion for 2022/23

- 3.4 During 2022/23, the work carried out by Internal Audit, taken together with other sources of assurance, was not sufficient to support a Chief Internal Auditor's annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This opinion is a requirement of the Public Sector Internal Audit Standards.
- 3.5 This limitation of scope stemmed from several challenges that impacted on the work undertaken during the year including the appointment of Essex County Council as Coomissioners and Best Value Inspectors; the issuing of the Section 114 Notice; and resource issues in the Internal Audit Service.
- 3.6 The Council continued to receive a significant number of COVID related grants, which had to be checked and signed off by the Chief Internal Auditor and Chief Executive to verify that expenditure was in line with the terms and conditions of the grants.
- 3.7 To avoid similar limitations in future, the Chief Internal Auditor plans to continue to address the following:
 - Internal Audit's resourcing issues.
 - Utilise the APEX framework with Mazars to support the service in the short-term.
 - Benchmark against statistical neighbours to determine the levels of audit staff that similar sized unitary authorities have in their establishments.
 - Develop an assurance framework to identify and map the main sources of assurance the Council has.
 - Undertake a self-assessment of the Internal Audit Service against the Public Sector Internal Audit Standards (PSIAS).
 - Develop a Quality Assurance Improvement Programme to improve the quality of the service being provided to the Council.
 - Attend Directorate Management Team meetings and meet with the Managing Director Commissioner on a quarterly basis.

- Improve communications, the supply of information and provision of training to members of the Standards & Audit Committee.
- Meet regularly with the Chair of the Standards & Audit Committee on a one-to-one basis to discuss any specific concerns around the governance, risks and controls of the Council.

All of the above are intended to strengthen officers and Members knowledge around the role of internal audit and enhance Internal Audit Service's independence within the Council. This will make it a service that is fit for purpose, is valued and meets the expectations of its key stakeholders.

4. Reasons for Recommendation

- 4.1 The Chief Internal Auditor's Annual Report Year ended 31st March 2023 (including summarised report for Year ended 31st March 2022) is presented for the Standards & Audit Committee to consider and comment on, and supports the Council's Annual Governance Statement.

5. Consultation (including Overview and Scrutiny, if applicable)

- 5.1 The Chief Internal Auditor's Annual Report Year ended 31st March 2023 (including summarised report for Year ended 31st March 2022) provides an independent opinion on the Council's governance, risk management and internal control processes. The report has been shared with the Senior Leadership Team and the Portfolio Holder for Transformational Change, Communications and Governance. It is based on work identified in the Council's Improvement and Recovery Plan, BV report and work completed during the year, which is widely reported to officers and Members.

6. Impact on corporate policies, priorities, performance and community impact

- 6.1 The achievement of corporate priorities is a key consideration of the Corporate Directors, senior management and Internal Audit when they are planning the years' work. A no assurance opinion in the Chief Internal Auditor's Annual Report provides independent assurance that the Council has inadequate control and risk management processes in place.

7. Implications

7.1 Financial

Implications verified by: **Rosie Hurst**
Interim Senior Management Accountant

With the issuing of a no assurance report for 2022/23, there may be financial implications if additional work is undertaken by the external auditors, to enable them to gain the levels of assurance they require to meet their statutory responsibilities.

7.2 Legal

Implications verified by: **Gina Clarke**
Governance Lawyer & Deputy Monitoring Officer

The contents of this report and appendix form part of the Council's responsibility to comply with the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015. The Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and achievement of its aims and objectives; ensures that the financial and operational management of the Council is effective; and includes effective arrangements for the management of risk.

At least annually the Council must undertake an effective internal audit to, amongst other things, evaluate the effectiveness of its risk management control and governance processes taking into account public sector internal auditing standards or guidance. The Council has delegated responsibility for ensuring this is taking place to the Standards & Audit Committee.

7.3 Diversity and Equality

Implications verified by: **Rebecca Lee**
Team Manager – Community Development and Equalities

There are no direct diversity or equality implications arising from this report.

7.4 Other implications (where significant) – i.e., Staff, Health Inequalities, Sustainability, Crime and Disorder, and Impact on Looked After Children

In terms of risk and opportunity management, the Chief Internal Auditor's Annual Report and its outcomes are a key part of the Council's risk management and assurance framework and are used to inform the Section 151 Officer's Annual Governance Statement.

8. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Internal Audit Reports issued in 2021/22 and 2022/23.

9. Appendices to the report

- Appendix 1 - Chief Internal Auditor's Annual Report – Year ended 31st March 2023 (including summarised report for the Year ended 31st March 2022).

Report Author Contact Details:

Name: Gary Clifford

Title: Chief Internal Auditor

Department: Internal Audit Service

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Thurrock Council

Chief Internal Auditor's Annual Report Year ended 31st March 2023 (including summarised report for Year ended 31st March 2022)

Presented at the Standards & Audit Committee meeting of 19th
July 2023

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1. Introduction

In accordance with Public Sector Internal Audit Standards, the Chief Internal Auditor is required to provide an annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.

This is achieved through a risk-based plan of work, agreed with management and approved by the Standards & Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. As such, the assurance framework is one component that the Council takes into account in developing its Annual Governance Statement (AGS).

The AGS is an annual statement which is signed off by the Chief Executive and Leader of the Council setting out:

- How the individual responsibilities of the Section 151 Officer are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- The purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the assurance framework process; and
- The conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are, or will be taken where appropriate, to address issues arising.

In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

In September 2022, following concerns around the council's investment portfolio and levels of debt, the Secretary of State for Levelling Up, Housing and Communities announced a package of intervention which

had 2 parts. The first was Essex County Council being appointed as Commissioners to oversee the financial management of the Council. The second, and running parallel to this, was that Essex County Council were appointed as Best Value Inspectors to inspect the governance, audit, risk management and overview and scrutiny functions of the Council. This was originally due to be reported to the Secretary of State on 3rd January 2023 but an extension was agreed to 17th February 2023. The Best Value Report was published on 15th June.

The initial intervention resulted in the Council, working together with the Commissioners, in developing an Improvement and Recovery Plan with 5 key themes:

- Theme 1 – Financial Sustainability
- Theme 2 – Governance and Scrutiny
- Theme 3 – Strategic Direction
- Theme 4 – Place Leadership and Growth
- Theme 5 – Leadership and Culture

Internal Audit forms one of the workstreams under the Governance and Scrutiny theme.

In December 2022, the Council's Section 151 Officer issued a Section 114 notice, as the Council could not meet its budget for 2022/23 or 2023/24 due to its financial situation. As a result, all but essential spend was suspended.

In March 2023, the Secretary of State expanded the intervention package. This included the appointment of Dr David Smith as the Managing Director Commissioner and increased powers for Commissioners over: employment matters related to senior managers; the council's staff structure and operating model; and functions relating to scrutiny and transparency of strategic decision-making.

It is now clear that the problems around governance, risk management and internal control did not just relate to the period since the Intervention, and this has been reflected in the opinions being presented to Standards & Audit Committee for 2021/22 and 2022/23.

2. Summarised Chief Internal Auditor's Opinion for 2021/22

The purpose of the annual Chief Internal Auditor's Opinion is to contribute to the assurances available to the Section 151 Officer and the Council through the Standards & Audit Committee. This opinion will in turn assist the Council in the preparation of its AGS.

There were several challenges that impacted on the work undertaken by internal audit during 21/22. These included:

- Increased staff absence due to COVID;
- Long term sickness absence of the Chief Internal Auditor following major surgery;
- A reduction in hours being worked by one member of the team;
- Resignation of another member of the team; and
- Training following the implementation of new internal audit working papers software.

The above clearly impacted on the available resources and the recruitment to vacant posts was not successful so the recruitment process continued into 2022/23.

Advice and guidance was provided around changes in controls resulting directly from the changes to working practices with most staff working a hybrid pattern and there was additional work around COVID related grants to verify that expenditure was in line with the terms and conditions of the grant. We also undertook other ad hoc work as requested by senior management including a review around Traffic Management in Highways which identified a number of issues.

For the 12 months ended 31 March 2022, based on the work undertaken, our opinion below details the adequacy and effectiveness of the organisation's governance, risk management and internal control arrangements.

Governance

In March and September 2021, the Standards & Audit Committee were updated by the then Corporate Director of Resources and Place Delivery on the performance and financial issues around the investments and major projects. At the September meeting, one of the co-opted members of the Committee did challenge the Director on the investments and “whether he was comfortable with the level of concentration in one sector?” His response was that “he was happy that the Council had deliberately gone towards renewable energy and was very comfortable and very supportive of that”. There was no further challenge. The messages at these meetings were always positive, so this was accepted, and opportunities were missed to challenge the veracity of the reports being presented. The issues around the programme of works around the major contracts was on-going.

Based on outcomes from the Intervention, BV report and the above comments, my overall opinion on governance for 2021/22 is **Red** which is a No Assurance opinion.

Risk Management

Based upon our assessment of the council's current position from reports provided to the Standards & Audit Committee, it was clear that the council's arrangements around risk management were not progressing due to the lack of resources being invested in it. This comprised of one officer who also had operational responsibility over another service area. Whilst the corporate risk management framework and processes appeared to be robust, the council still needs to do more at the operational/service planning level to embed risk management into the everyday operations and decision making of the Council.

Based on outcomes from the Intervention, BV report and the above comments, my overall opinion on risk management for 2021/22 is **Red** which is a No Assurance opinion.

Internal Control

During 2021/22, we issued 11 reports, of which 10 received positive assurance opinions.

The positive assurance reports covered:

- Accounts Payable

- Country and Active Parks
- Housing Planned Maintenance
- Fleet
- Child Social Care Commissioning
- Play Area Maintenance
- Housing Rents
- Street Cleaning
- HR Induction and Probation (on-boarding)
- Premises Licencing

1 report on Highways Maintenance – Traffic Management received an Amber/Red (negative) assurance opinion. The key issues were around the sharing of information on contractor performance with senior management, segregation of duties around the payments process and reconciliation of service requests to payment applications. All the above reports were presented to the Standards & Audit Committee.

We also report changes to the plan. A review of Financial Sustainability was scheduled in the 2021/22 audit plan which would have included a review of the investments, as these formed a key part of the Council's income stream. However, this was deferred by the service due to the work being undertaken on the final accounts process. As we were aware of resourcing issues for both the External Auditor and the service area, this was agreed and reported to Standards & Audit Committee at its meeting on 25th November 2021.

In addition, we undertook work to confirm spend around 2 COVID specific grants and 1 non COVID related grant. Whilst advisory reports do not provide a specific assurance opinion, they do contain recommendations and provide assurance around operations. We continued to undertake 20% random sampling of payment by result claims made as part of the Troubled Families Programme.

The issues around the major contracts and projects was on-going.

Based on outcomes from the Intervention, BV report and the above comments, my overall opinion on internal control for 2021/22 is **Red** which is a No Assurance opinion.

3. Overall Chief Internal Auditor's Opinion for 2022/23

During 2022/23, the results of the work carried out by internal audit, taken together with other sources of assurance, were not sufficient to support a Chief Internal Auditor annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This opinion is a requirement of the Public Sector Internal Audit Standards.

This limitation of scope has arisen because of a number of factors and challenges that impacted on the service and the Council during the year. These included:

- Essex County Council being appointed as Commissioners to oversee the financial management of the Council.
- Essex County Council being appointed as Best Value Inspectors to inspect the governance, audit, risk management and overview and scrutiny functions of the Council.
- The Council's Section 151 Officer issuing a Section 114 notice, as the Council could not meet its budget for 2022/23 or 2023/24 due to its financial situation Resourcing issues with the 2 remaining staff leaving the authority.
- Loss of last 2 members of the team and the continued vacancies at the Internal Auditor level. These were subsequently filled in September 2022.
- Retraining of new staff using the new internal audit software. This was reliant on the supplier, so the training was not provided until late October 2022.
- Additional work continued around COVID related grants to verify that expenditure was in line with the terms and conditions of the grant.

To avoid similar limitations in future the Chief Internal Auditor will:

- continue to address the resourcing issues. However, it should be noted that these senior roles are hard to recruit to and alternative solutions will be explored.

- Utilise the APEX framework with Croydon Council for the provision of additional resources by Mazars to support the service in the short-term.
- Benchmark against statistical neighbours to determine the levels of staff that similar sized unitary authorities have in their establishments to ensure there are sufficient resources moving forward.
- Develop an assurance framework to identify and map the main sources of assurance the Council has, both internally and externally, to improve its oversight of governance, risk and controls.
- Undertake a self-assessment of the internal audit service against the Public Sector Internal Audit Standards (PSIAS). This will be independently scrutinised through an independent external assessment.
- Following the self-assessment process, develop a Quality Assurance Improvement Programme to improve the quality of the service being provided to the Council.
- Attend Directorate Management Team meetings, and meet with the Managing Director Commissioner, on a quarterly basis to discuss the audit plan, emerging risks and changes to systems and working practices.
- Improve communications, the supply of information and provision of training to members of the Standards & Audit Committee through the development of a programme of training events and workshops covering relevant topical issues.
- Meet regularly with the Chair of the Standards & Audit Committee on a one-to-one basis to discuss any specific concerns around the governance, risks, and controls of the Council.

4. Acceptance and Implementation of Internal Audit Recommendations

No follow up work was undertaken during 2022/23 due to resourcing issues.

5. Internal Audit Performance

Delivery of value-added services

During 2022/23, the Chief Internal Auditor continued to provide ad hoc advice and guidance to management around their control environments.

The Council continues to receive grants from Central Government which have to be formally signed off by the Chief Internal Auditor and Chief Executive to confirm that the grant was spent in accordance with the grant conditions. This area has increased over the last few years' due to the assistance that central government has provided to local authorities to address the financial impact of the pandemic on the council, residents and local businesses and more recently, the cost-of-living crises. This work is expected to continue during 2023/24.

We also continue to invest resources in reviewing samples of claims being submitted under the Troubled Families Programme to ensure that outcomes were being achieved as stated, there was evidence to support the outcomes and the claims were accurate. This helps to ensure the council receives its Payment by Results (PbR) grant which results in significant income to the council to assist more families. These claims have been increasing year on year.

As a result of the issuing of the Section 114 Notice, the Chief Internal Auditor also supports the Council's Expenditure Control Panel process which reviews all spend where a formal contract is not in place, between £500 and £25,000.

Conflicts of Interest

Internal Audit staff have not undertaken any work or activity during 2021/22 or 2022/23 that would require them to declare any conflicts of interest.

Compliance with Internal Audit Standards

Under the Public Sector Internal Audit Standards (PSIAS), the Internal Audit Service is required to have an external assessment every five years. Following dialogue with an external assessor around our resourcing issues, we had to defer this in 2022/23 so are non-compliant with the Standards. However, we will be undertaking an internal self-assessment and developing a Quality Assurance Improvement Programme, the results of which will be shared with the Standards & Audit Committee. An external assessment will be scheduled in towards the end of the financial year with the results of this independent review also being shared with the Committee.

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