

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).

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