

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

Contents

Section	Page
1. Introduction	1
2. Summarised Internal Audit Opinion for 2021/22	3
3. Overall Internal Audit Opinion for 2022/23	6
4. Acceptance and Implementation of Internal Audit Recommendations	8
5. Internal Audit Performance	8

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.