

CORPORATE AFFAIRS AND AUDIT COMMITTEE

Date: Thursday 20th July, 2023 Time: 2.00 pm Venue: Mandela Room

AGENDA

1. Welcome and Evacuation Procedure
2. Apologies for Absence
3. Declarations of Interest
To receive any declarations of interest.
4. Minutes - Corporate Affairs and Audit Committee - 29 June 2023 3 - 8
5. Head of Internal Audit Annual Report 9 - 40
6. Any other urgent items which in the opinion of the Chair, may be considered

Charlotte Benjamin
Director of Legal and Governance Services

Town Hall
Middlesbrough
Wednesday 12 July 2023

MEMBERSHIP

Councillors J Ewan (Chair), J Kabuye (Vice-Chair), D Coupe, P Gavigan, B Hubbard, S Platt and M Storey

Assistance in accessing information

Should you have any queries on accessing the Agenda and associated information please contact Susan Lightwing, 01642 729712, susan_lightwing@middlesbrough.gov.uk

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on Thursday 29 June 2023.

PRESENT: Councillors J Ewan (Chair), D Coupe, P Gavigan, B Hubbard, S Platt, A Romaine (as substitute for Councillor Kabuye), and M Storey (as substitute for Councillor High)

PRESENT BY INVITATION: Councillors I Blades and N Walker

ALSO IN ATTENDANCE: J Dodsworth (Veritau), M Thomas (Internal Auditor) (Veritau) and M Rutter (External Auditor) (Ernst Young)

OFFICERS: S Lightwing, C Benjamin, A Johnstone and J Weston

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillors J Kabuye and A High

23/1 WELCOME AND EVACUATION PROCEDURE

The Chair read out the Building Evacuation Procedure and welcomed all present to the meeting.

The Chair wished to record her thanks to the former Chair, Vice Chair and Members of the Corporate Affairs and Audit Committee for their contributions and work during the past four years.

NOTED

23/2 DECLARATIONS OF INTEREST

There were no declarations of interest received at this point in the meeting.

23/3 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 28 APRIL 2023

The minutes of the Corporate Affairs meeting held on 28 April 2023 were submitted and approved as a correct record, subject to the following amendment:

Page 2, 3rd paragraph: "This was because work was still on-going in relation to the value for money qualification on Governance."

This sentence to be removed as it was incorrect - the value for money work had been completed.

NOTED

23/4 TIMELINE FOR STATEMENT OF ACCOUNTS

A timeline for the Statement of Accounts was presented to the Committee for information.

There were currently three sets of accounts being prepared relating to 2021/2022, 2022/2023 and 2023/2024.

Due to a number of high profile private sector accounting issues, there had been increased scrutiny which had fed through to the public sector and regulation around the process had extended significantly. The Statement of Accounts was required to show a true and fair view of the Council's finances and provide a value for money assessment.

The additional work required and audit queries had led to a backlog of work for the Council's Finance Team on the accounts and the audit process. The timeline provided details of the work that was required to close off the outstanding accounts. The 2021/2022 accounts were almost complete, the 2022/2023 were close to completion and the 2023/2024 accounts were

currently being prepared.

The Director of Finance was currently seeking additional investment in the Finance Team to assist with the backlog of work. Additional external examination of the accounts and the position of the Council in terms of financial sustainability and going concern were adding to the workload.

A Member highlighted recent press reporting that delays to the publication of the Teesside Pension Fund Accounts had caused some issues for other Employers in the Teesside Pension Fund. The External Auditor stated that the overall timetable for the approval of the accounts was not necessarily holding up the pension fund work. The work for 2021/2022 was completed and published in March 2022 and at the end of that month the valuation of the pensions came out and the values had increased significantly.

It was confirmed that whilst there were no financial penalties for not meeting the deadlines for publishing draft or audited accounts, there could potentially be reputational damage. A notice had to be placed on the Council's website to explain why deadlines had not been met. The Officer added that the Council was quite close to being able to publish within the statutory deadlines.

In terms of recruitment of additional resources, the Council had been unable to recruit to the Chief Accountant post. The skill set was in high demand but there was potential to employ suitable people through recruitment agencies. A further update would be provided at the next meeting.

AGREED that the information provided was received and noted.

23/5

AUDITOR'S ANNUAL REPORT - YEAR ENDED 31 MARCH 2021

The External Auditor Ernst and Young had concluded the planned audit work in relation to the financial year 2020/21 and presented the Annual Report to the Committee for information and discussion.

The report included the Auditor's conclusions and recommendations in relation to the audit of the financial statements and in relation to the assessment of the Council's arrangements for securing robust governance and Value For Money. The findings had been subject of previous reports to the Committee over the period July 2022 and updates through to April 2023. However as the Corporate Affairs and Audit Committee had a new membership following the local elections in May 2023, it was appropriate for the Committee to formally consider the Auditor's Annual Report. The External Auditor suggested that the audit planning reports for 2021-22 should be circulated to Committee Members for information.

The Council provided management responses to the auditor's 7 recommendations in relation to Value for Money in July 2022 as set out in the Annual Report. The Council continued to progress the delivery of its Improvement Plan over the last year and the latest progress update was due to be presented to Council on 5 July 2023.

The External Auditor's Annual Report was attached at Appendix 1 to the submitted report and included the following:

- Executive summary
- Purpose and responsibilities
- Financial statements audit
- Value for Money
- Other reporting issues
- Appendix 1 – Fees

Members' attention was drawn to paragraph 9 of the covering report which set out in detail the fees for the 2020/2021 audit. The fees were significantly higher than both the planned fee for the 2020/21 (4.5 times higher) and the final fee for the previous year's audit. This related primarily to the length of the audit at just under two years, the increasing changes in both risk and regulation involved with the audit activity, and some of the specific governance issues which culminated in a value for money qualification for the Council. All these points had been raised previously by EY to both Officers and the Committee. The increase in audit fees had

been acknowledged by the Council and was being factored into the on-going medium-term financial plan. Given the level of increase in fees, a fee variation request has been submitted by EY to Public Sector Audit Appointments (the regulatory body in this area). The Council could submit its comments as to whether it accepted the fees or not and could provide further explanation or evidence if needed.

The External Auditor drew Members' attention to the following aspects of the Financial Statement Audit and provided further detailed explanation in relation to each heading:

Areas of Significant Risk:

- Misstatements due to fraud or error (Council and Pension Fund).
- Risk of fraud in revenue and expenditure recognition (Council).
- Valuation of land and buildings (Council only).
- Accounting for infrastructure assets (Council only).
- Valuation of unquoted pooled investment vehicles (Pension Fund only).
- Valuation of directly-held property (Pension Fund only).

Other areas of audit focus

- Valuation of defined benefit pension liability (Council only).
- Going concern and associated disclosures (Council only).

Audit differences (Council and Pension Fund).

Value for Money (VFM) Assessment.

In relation to the longer timescales for audit completion, the financial implications for the Council in terms of audit fees, and whether this would be repeated in future, the External Auditor explained that the requirements were set in legislation. Pre-pandemic, audits were expected to be completed by July. However, in 2020 this date was moved to November and then to September the following year. It was likely that September would continue to be the new end date.

Regarding asset valuations, a Member queried whether there was any difference in the Teesside Pension Fund's valuations and EY's. The External Auditor stated that the Council used an external valuer to undertake the valuation and then EY examined the work of this specialist and the methodology. A sample of the assets would be selected and the data tested for accuracy. EY's own specialist would also review a sample of the valuations.

A Member commented on the decision making in relation to Boho X highlighted in the VFM section of the report and EY's view on the communication between the Mayor and a Senior Officer which did not explicitly provide authority. Several examples were provided within the report where Council policies and procedures were not adhered to. The External Auditor was asked whether work was ongoing on this issue and it was confirmed that a Governance Audit was currently being undertaken.

The Internal Auditor confirmed that audit report on the Middlesbrough Development Company was close to completion and would be made available to Committee Members once finalised.

AGREED as follows that:

1. the content of the External Auditor's Annual Report was received and noted.
2. audit planning reports for 2021-22 would be circulated to the current Committee membership.

INTERNAL AUDIT AND COUNTER FRAUD WORK PROGRAMMES 2023/2024

The Head of Internal Audit, Veritau, presented a report to seek Members' approval for the 2023/2024 Planned Programme of Internal Audit and to asked Members to note the Counter Fraud 2023/2024 Work Programme.

The Internal Audit work was high level, risk based and prioritised to those areas of most benefit to the Council. The Auditor tried to be responsive to emerging issues and risks that had not been identified previously and therefore the programme was flexible throughout the

year. The proposed areas of coverage had been subject to consultation with the Corporate Affairs and Audit Committee and senior officers including Directorate Management Teams.

Appendix 1 to the submitted report set out the proposed internal audit work for 2023/24 and eleven key areas identified for audit were as follows:

- strategic planning
- organisational governance
- financial governance
- risk management
- information governance
- performance management and data quality
- procurement and contract management
- people management
- asset management
- programme and project management
- ICT governance

The planned work was based on an initial assessment of risk undertaken. The identification of risks included in the assessment had been informed in a number of ways. This included review of the organisational risk management processes, sector-wide risk information, understanding the Council's strategies and objectives, other known risk areas (for example areas of concern highlighted by management), the results of recent audit work and other changes in Council services and systems.

Further meetings would be held throughout the year to plan and confirm the scope and timings of audit work and regular updates would be provided to the Corporate Affairs and Audit Committee on the coverage, scope and findings of internal audit's work.

The total days allocated to internal audit assurance in 2023/24 was 555.

A Member queried the proposed audit in relation to Domestic Abuse. The Internal Auditor explained that this had been identified through discussions with officers and would examine the Council's plans for monitoring activity, assessing outcomes and what plans were in place for improving performance.

In relation to those audits marked "to do later", the Internal Auditor clarified that those audits would be done in Quarter 3 or Quarter 4.

Internal Audit's aim in relation to counter fraud was to prevent fraud occurring at the Council, raise awareness amongst staff, demonstrate that there were consequences of fraud and recover any money that was lost.

Proposed areas of counter fraud work in 2023/24 were set out in Appendix 2 to the submitted report.

No estimate of time was made for each area as this would depend on the levels of suspected fraud reported to the team. The priorities for the work programme were set annually in the Council's Counter Fraud Strategy Action Plan and annual Fraud Risk Assessment which were most recently presented to the Committee in September 2022.

The total days allocated to counter fraud work in 2023/24 was 150.

AGREED as follows that the:

1. Internal Audit Work Programme 2023/2024 was approved.
2. Counter Fraud Work Programme 2023/2024 was noted.

23/7

ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED

A proposal was put forward that an additional meeting of the Corporate Affairs and Audit Committee should be convened in August 2023. The Director of Legal and Governance Services suggested that this proposal should be discussed outside of the meeting in consultation with the Chair and Vice Chair.

NOTED

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MIDDLESBROUGH COUNCIL



Report of:	Head of Internal Audit, Veritau
Submitted to:	Corporate Affairs and Audit Committee, 20 July 2023
Subject:	Annual Report of the Head of Internal Audit and Annual Counter Fraud Report

Summary

Proposed decision(s)
<p>That the Committee:</p> <ul style="list-style-type: none"> notes the results of internal audit work and counter fraud work undertaken notes the opinion of the Head of Internal Audit on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control notes the significant control issues identified by internal audit which are considered relevant to the preparation of the Council's Annual Governance Statement notes the outcome of the Quality Assurance and Improvement Programme and the confirmation that the internal audit service conforms with the Public Sector Internal Audit Standards

Report for:	Key decision:	Confidential:
Information	No	No

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
Receiving details of internal audit and counter fraud work completed will help the Committee perform its role. Internal audit and counter fraud work contributes towards achieving the Council's priorities by identifying potential issues which may obstruct that achievement.	Internal Audit assists management in delivering their priorities by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls, ensure value for money and achieve better outcomes for local people.	Delivering balanced budgets, maintaining front line services, and addressing budget shortfalls are priorities for the Council. Ensuring appropriate controls are in place and preventing fraud from occurring and recovering loss helps the Council achieve these aims.

Ward(s) affected
None.

What is the purpose of this report?

1. To provide Members with a summary of internal audit work undertaken in 2022/23 and to provide an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control. To provide a summary of counter fraud activity during the year.

Why does this report require a Member decision?

2. The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the Council's audit charter. These require the Head of Internal Audit to bring an annual report to the Corporate Affairs and Audit Committee. The report must include an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

Report Background

3. The annual internal audit report is attached at appendix 1. It includes a summary of the work completed during the year, findings from recently issued audit reports, and the annual internal audit opinion.
4. The report also includes details of Veritau's Quality Assurance and Improvement Programme (QAIP). This outlines Veritau's ongoing quality assurance arrangements and activities, and provides evidence to demonstrate that internal audit work has been carried out to the expected professional standards.
5. Veritau also provides a counter fraud service to the Council. An annual report setting out counter fraud activity and performance is attached at appendix 2.

What decision(s) are being asked for?

6. That the committee:
 - notes the results of internal audit work and counter fraud work undertaken during the year
 - notes the opinion of the Head of Internal Audit on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control
 - notes the significant control issues identified by internal audit which are considered relevant to the preparation of the Council's Annual Governance Statement
 - notes the outcome of the Quality Assurance and Improvement Programme and the confirmation that the internal audit service conforms with the Public Sector Internal Audit Standards

Why is this being recommended?

7. Internal audit professional standards and the Council's audit charter require that internal audit prepare an annual report, including an opinion on the Council's framework of governance, risk management and control.

Other potential decisions and why these have not been recommended

8. This report is for information. There are no other options available.

Impact(s) of recommended decision(s)

9. There are no implications to this report in relation to:

- ***Legal***
- ***Financial***
- ***Policy Framework***
- ***Equality and Diversity***
- ***Risk***

10. The Council will fail to comply with proper practice for internal audit if Members are not regularly updated on the progress of, and the outcomes from internal audit work.

Actions to be taken to implement the decision(s)

11. n/a

Appendices

Appendix 1 – Head of Internal Audit annual report

Appendix 2 – Counter Fraud annual report

Background papers

No background papers were used in the preparation of this report

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ANNUAL HEAD OF INTERNAL AUDIT REPORT

20 July 2023

APPENDIX 1



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Phil Jeffrey
Assistant Director Audit Assurance



Max Thomas
Head of Internal Audit

Circulation list: Members of the Corporate Affairs and Audit Committee



BACKGROUND

- 1 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the Council's audit charter. These require the Head of Internal Audit to present an annual report to the Corporate Affairs and Audit Committee. The report must include an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control. The report should also include:
 - (a) any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
 - (b) any particular control weakness judged to be relevant to the preparation of the Council's annual governance statement
 - (c) a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
 - (d) an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme, including a statement on conformance with the PSIAS.



INTERNAL AUDIT WORK CARRIED OUT IN 2022/23

- 2 During 2022/23, audit work has continued to be prioritised based on the risk and priorities of the Council and our work programme has developed during the year as a result. We have continued to ensure that we provide sufficient coverage of the Council's framework of governance, risk management and control whilst also remaining responsive to emerging issues.
- 3 The Council continues to face significant financial pressures as a result of the continued increase in demand for its services and the impact of inflation and economic uncertainty. In particular, Children's social care has been identified by the Council as its most significant financial risk.
- 4 In addition, the Council has had a number of governance issues identified by Veritau and the external auditors, EY resulting in a Best Value Improvement notice being issued in January 2023. Audit work undertaken during the year has included a significant allocation of time spent on these governance-related issues including work relating to the allegations made by former Executive members.
- 5 A summary of internal audit work undertaken during the year is included in appendix A, below.
- 6 Appendix B, below, provides details of the key findings arising from internal audit assignments completed, that we have not previously reported to the committee. Appendix C provides an explanation of our assurance levels and priorities for management action.



FOLLOW UP OF AGREED ACTIONS

- 7 All actions agreed with services as a result of internal audit work are followed up to ensure that underlying control weaknesses are addressed. A summary of the current position on outstanding management actions is included in appendix D.



PROFESSIONAL STANDARDS

- 8 In order to comply with Public Sector Internal Audit Standards (PSIAS) the Head of Internal Audit is required to develop and maintain an ongoing quality assurance and improvement programme (QAIP). The objective of the QAIP is to ensure that working practices continue to conform to professional standards. The results of the QAIP are reported to the committee each year as part of the annual report. The QAIP consists of various elements, including:
 - maintenance of a detailed audit procedures manual and standard operating practices
 - ongoing performance monitoring of internal audit activity
 - regular customer feedback
 - training plans and associated training and development activities
 - periodic self-assessments of internal audit working practices (to evaluate conformance to the standards)
- 9 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The most recent external assessment of Veritau internal audit working practices was undertaken in November 2018. This concluded that Veritau internal audit activity generally conforms to the PSIAS¹. The next external assessment will be conducted by the Institute of Internal Auditors in August 2023, and the findings from the assessment will be reported to this committee.
- 10 The outcome of the recently completed self-assessment demonstrates that the service continues to generally conform to the PSIAS, including the Code of Ethics and the Standards. Further details of the QAIP are given in appendix E.
- 11 The Internal Audit Charter sets out how internal audit at the Council will be provided in accordance with the PSIAS. The Charter is reviewed on an annual basis and any proposed changes are brought to the Corporate Affairs and Audit Committee for approval. No changes are proposed at this time.

¹ PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.



OPINION OF THE HEAD OF INTERNAL AUDIT

- 12 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating at the Council is that it provides **Limited Assurance**. No reliance was placed on the work of other assurance providers in reaching this opinion.
- 13 In giving this opinion, attention is drawn to the following significant control weaknesses which are considered relevant to the preparation of the 2022/23 Annual Governance Statement.
- 14 In our 2021/22 opinion, we highlighted a number of governance weaknesses which led us to conclude that the issues identified were not limited to one specific area or audit and were instead indicative of wider issues around relationships between members and officers, and a lack of clear separation of their respective roles.
- 15 During the year we reviewed the Council's governance arrangements in respect of the Middlesbrough Development Company, a wholly owned subsidiary of the Council. This followed on from allegations made by former Executive members about a number of governance-related issues. Whilst the audit is still at draft report stage, we have informed officers of our findings. We compared the current governance arrangements against CIPFA good practice and found a number of weaknesses. These included a lack of clarity in respect of roles and responsibilities (including officers and members), the composition and training of members of the Board, performance management and documentation of Board meetings. Since the audit commenced, the Council has taken the decision to wind up the company.
- 16 Improvements are also required in a number of other areas. An audit of burials during the year identified various governance-related issues. There was no overarching strategy for the service and policies were not being updated. Same day burial services were not offered consistently and the gifts and hospitality policy was not always being adhered to. Similarly, a review of senior management reviews found that there was no defined process for evaluating the effectiveness of senior management reviews or formally reporting financial and other outcomes.
- 17 Given the results of our audit work during the year, we have not seen sufficient evidence that the Council's governance, risk management and control framework has significantly improved. In addition, we note that the government issued a Best Value Improvement notice in January 2023. The Council is currently implementing an improvement plan to address these issues.
- 18 In order to test whether the required improvements to project management arrangements have been made, we are currently carrying out an audit of regeneration project governance. We intend to report the findings of this audit soon. In addition, we plan to further review other previously identified areas of concern such as procurement.

- 19 The overall opinion given is based on work that has been undertaken directly by internal audit, and on the cumulative knowledge gained through our ongoing liaison and planning with officers. There are no qualifications to this opinion and no reliance was placed on the work of other assurance bodies in reaching this opinion. The opinion is based on internal audit work completed during the year including that detailed in this report and other monitoring reports to the committee during the year.

APPENDIX A: 2022/23 INTERNAL AUDIT WORK

Final reports issued

Audit	Reported to Committee	Assurance Level
Project management – Boho X	July 2022	Limited Assurance
Asset maintenance	July 2022	Substantial Assurance
Teesside Pension Fund – overpayments	July 2022	Substantial Assurance
Schools themed audit – purchasing cards & asset management	July 2022	Substantial Assurance
Future High Streets Fund	September 2022	Substantial Assurance
Home working	September 2022	Substantial Assurance
ICT change management	September 2022	Substantial Assurance
Benefits - overpayments	September 2022	Substantial Assurance
Main Accounting	December 2022	Substantial Assurance
Teesside Pension Fund – investments	March 2023	Substantial Assurance
Firewalls (ICT)	March 2023	Substantial Assurance
Creditors	March 2023	Reasonable Assurance
Payroll	March 2023	Substantial Assurance
Burials	March 2023	Limited Assurance
Towns fund governance	March 2023	Substantial Assurance
CCTV (follow-up)	March 2023	No Opinion Given
Senior management reviews	April 2023	No Opinion Given
Supplier relief	July 2023	No Opinion Given

Audits in progress

Audit	Status
Children's commissioning & contract management	Draft report issued
Middlesbrough Development Company	Draft report issued
Disabled Facilities grant	Draft report issued

Audit	Status
Tees Community Equipment Service	Fieldwork complete
Schools themed audit – Schools Financial Value Standard	Fieldwork complete
Regeneration projects	Fieldwork complete
Domestic abuse	In progress
Council Tax and NNDR	In progress
Homecare	In progress

Other work

Internal audit work has been undertaken in a range of other areas during the period, including those listed below.

- A review of grant claims including the Children's Services Practice Improvement grant, Green Homes grant, Adult Weight Management grant, and the Biodiversity net gain grant.
- A review of returns completed by the Council for the Supporting Families scheme
- A review of Covid grant schemes including Track and Trace and the Contain Outbreak Management Fund
- Data analysis on debtors accounts to provide feedback on potential data errors including duplicate entries
- Ongoing governance work relating to allegations made by former Executive members
- An annual review of a number of trust funds administered by the Council

APPENDIX B: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

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System/area	Opinion	Area reviewed	Date issued	Comments / Issues identified	Management actions agreed
Supplier relief	No opinion given	A review of financial information submitted to the Council by a key supplier, in support of supplier relief claims made during Covid lockdowns.	16 May 2023	We were broadly satisfied with the reported expenditure during the period concerned. However, there were some items identified for the Council to verify with the provider.	None.

APPENDIX C: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

Audit opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Opinion	Assessment of internal control
Substantial assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Priorities for actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

APPENDIX D: FOLLOW UP OF AGREED AUDIT ACTIONS

Where weaknesses in systems are found by internal audit, the auditors agree actions with the responsible manager to address the issues. Agreed actions include target dates and internal audit carry out follow up work to check that the issue has been resolved once these target dates are reached. Follow up work is carried out through a combination of questionnaires completed by responsible managers, risk assessment, and by further detailed review by the auditors where necessary. Where managers have not taken the action they agreed to, issues are escalated to more senior managers, and ultimately may be referred to the Corporate Affairs and Audit Committee.

Actions completed

A total of 3 actions have been completed since 16 March. A summary of the priority of the 3 completed actions are included below:

Actions agreed		Actions agreed by directorate						
Priority of actions	Number of actions agreed	Priority of actions	Adult Social Care	Children's Services	Environment and Community	Finance	Legal and Governance	Regeneration
1	0	1	0	0	0	0	0	0
2	0	2	0	0	0	0	0	0
3	3	3	0	0	0	1	1	1
Total	3	Total	0	0	0	1	1	1

Actions Outstanding

A total of 15 actions with original due dates that have passed are still outstanding. A summary of the priority of these actions is included below:

Actions agreed	
Priority of actions	Number of actions agreed
1	5
2	8
3	2
Total	15

Actions agreed by directorate						
Priority of actions	Adult Social Care	Children's Services	Environment and Community	Finance	Legal and Governance	Regeneration
1	0	0	5	0	0	0
2	0	0	7	1	0	0
3	0	0	0	1	1	0
Total	0	0	12	2	1	0

Of the 15 actions outstanding 13 have had a revised date agreed and 2 are currently being followed up.

Actions outstanding for more than 6 months (Priority 1 and 2)

Eleven Priority 1 and 2 actions have currently been outstanding for more than 6 months. Of these, 8 relate to the audit of the Transporter Bridge and details have been reported previously to this committee. The actions relate to operational issues, and these will not be dealt with until the bridge is brought into operation for which there is no agreed date.

We will monitor the position and follow up again when there is a plan for the bridge to become operational, but will remove the actions from follow up reporting to this committee until that point.

Details of the remaining actions are included in the table below. Revised dates have been agreed and we will follow these up when the new implementation dates become due.

Audit	Priority	Original Date	Revised Date	Finding / Action	Reason for Delay
Debtors	2	Sep 21	Sep 23	The VAT Officer will investigate cases with incorrect VAT treatment identified during the audit and will	A new VAT officer is now in place who will investigate and produce

Audit	Priority	Original Date	Revised Date	Finding / Action	Reason for Delay
				provide further training and guidance for relevant staff.	some key points on the incorrect VAT treatment with further training and guidance provided where necessary. A VAT audit is planned during 2023/24.
Burials	2	Dec 22	Sep 23	The charter will be completed in conjunction with the Head of Democratic Services clarifying the roles, responsibilities and expected conduct of the Council in relation to death registration, burials and cremations, as well as the expected conduct of Funeral Directors. The charter will include a section relating to expected behaviour based on the Council's dignity & respect Policy and clarify the hierarchy of actions the council will take in the event that the standards are not maintained.	The service has some ongoing operational issues and has requested a delay to the implementation of these actions.
Burials	2	Dec 22	Jul 23	The arrangements for same day burials including the out of hours service will be reviewed and the circumstances in which they are offered documented.	

APPENDIX E: INTERNAL AUDIT - QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

1.0 Background

Ongoing quality assurance arrangements

Veritau maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards (specifically the Public Sector Internal Audit Standards). These arrangements include:

- ▲ the maintenance of a detailed audit procedures manual
- ▲ the requirement for all audit staff to conform to the Code of Ethics and Standards of Conduct Policy
- ▲ the requirement for all audit staff to complete annual declarations of interest
- ▲ detailed job descriptions and competency profiles for each internal audit post
- ▲ regular performance meetings
- ▲ regular 1:2:1 meetings to monitor progress with audit engagements
- ▲ induction programmes, training plans and associated training activities
- ▲ attendance on relevant courses and access to e-learning material
- ▲ the maintenance of training records and training evaluation procedures
- ▲ membership of professional networks
- ▲ agreement of the objectives, scope and expected timescales for each audit engagement with the client before detailed work commences (audit specification)
- ▲ the results of all audit testing and other associated work documented using the company's automated working paper system (Sword Audit Manager)
- ▲ file review by senior auditors and audit managers and sign-off at each stage of the audit process
- ▲ the ongoing investment in tools to support the effective performance of internal audit work (for example data interrogation software)
- ▲ post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- ▲ regular client liaison meetings to discuss progress, share information and evaluate performance

On an ongoing basis, completed audit work is subject to internal peer review by a Quality Assurance group. The review process is designed to ensure audit work is completed consistently and to the required quality standards. The work of the Quality Assurance group is overseen by an Assistant Director. Any key learning points are shared with the relevant internal auditors and audit managers. The Head of Internal Audit will also be informed of any general areas requiring

improvement. Appropriate mitigating action will be taken where required (for example, increased supervision of individual internal auditors or further training).

Annual self-assessment

On an annual basis, the Head of Internal Audit will seek feedback from each client on the quality of the overall internal audit service. The Head of Internal Audit will also update the PSIAS self-assessment checklist and obtain evidence to demonstrate conformance with the Code of Ethics and the Standards. As part of ongoing performance management arrangements, each internal auditor is also required to assess their current skills and knowledge against the competency profile relevant for their role. Where necessary, further training or support will be provided to address any development needs.

The Head of Internal Audit is also a member of various professional networks and obtains information on operating arrangements and relevant best practice from other similar audit providers for comparison purposes.

The results of the annual client survey, PSIAS self-assessment, professional networking, and ongoing quality assurance and performance management arrangements are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan, internal audit strategy action plan, and/or individual personal development action plans. The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board² as part of the annual report of the Head of Internal Audit.

External assessment

At least once every five years, arrangements must be made to subject internal audit working practices to external assessment to ensure the continued application of professional standards. The assessment should be conducted by an independent and suitably qualified person or organisation and the results reported to the Head of Internal Audit. The outcome of the external assessment also forms part of the overall reporting process to each client (as set out above). Any specific areas identified as requiring further development and/or improvement will be included in the annual Improvement Action Plan for that year.

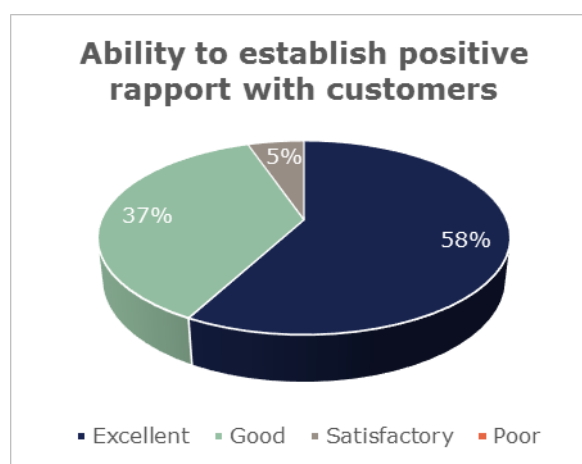
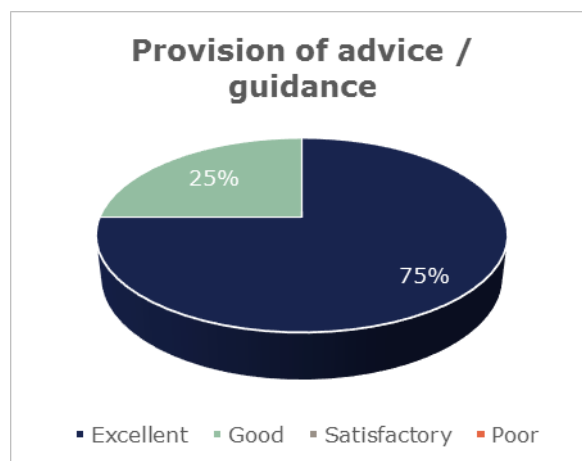
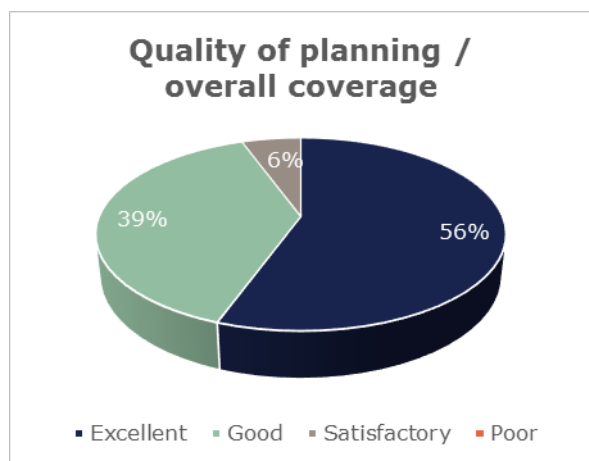
2.0 Customer Satisfaction Survey 2023

In March 2023 we asked clients for feedback on the overall quality of the internal audit service provided by Veritau. Where relevant, the survey also asked questions about counter fraud and information governance services. A total of 176 surveys (2022 – 154) were issued to senior managers in client

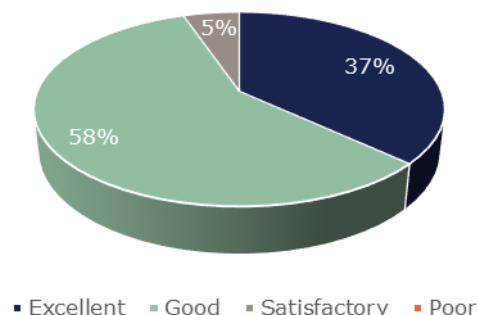
² As defined by the relevant audit charter.

organisations. A total of 19 responses were received representing a response rate of 10.8% (2022 – 12%). Respondents were asked to rate the different elements of the audit process as either excellent, good, satisfactory or poor.

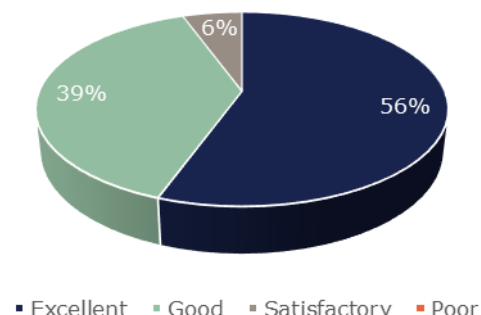
Respondents were also asked to provide an overall rating for the service. The results of the survey are set out in the charts below. These are presented as percentages, for consistency with previous years. However, it is recognised that the low number of respondents means that the percentage for each category is sensitive to small changes in actual responses (1 respondent represents about 5%).



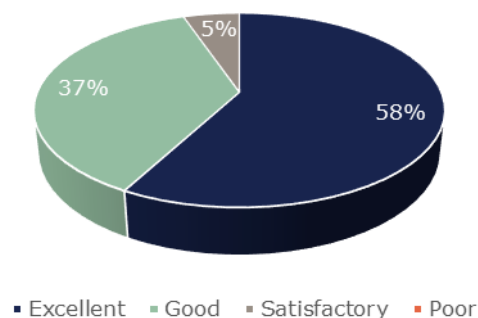
Knowledge of system / service being audited



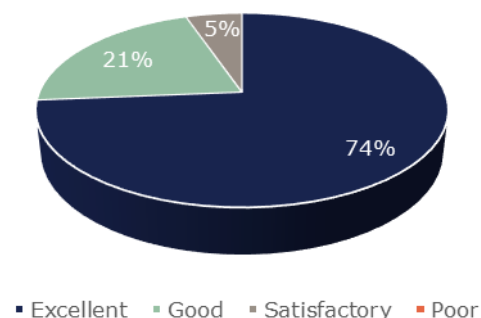
Minimising disruption to the service being audited



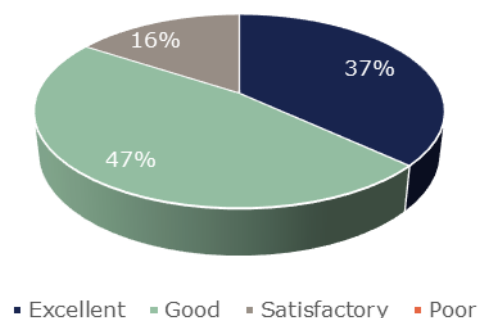
Communicating issues during the audit



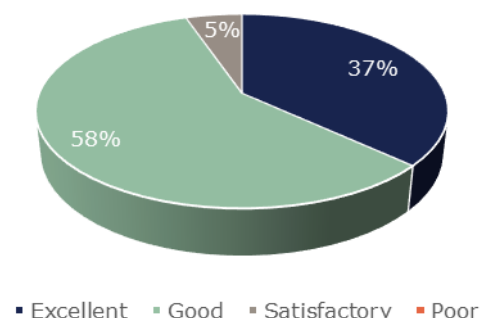
Quality of feedback at end of audit

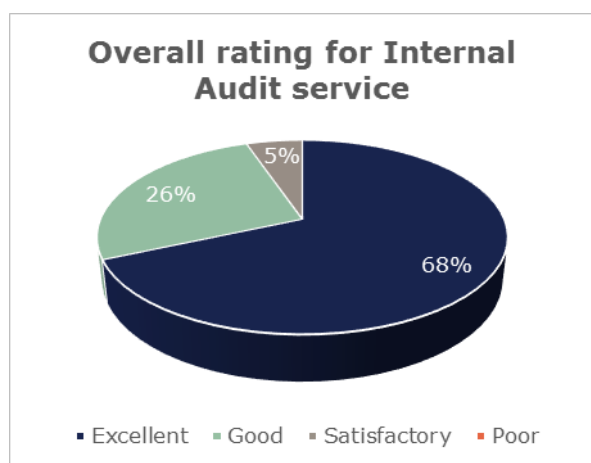


Accuracy, format, length & style of audit report



Relevance of audit opinions & conclusions





The overall ratings in 2023 were:

	2023		2022	
Excellent	13	68%	9	47%
Good	5	26%	9	47%
Satisfactory	1	5%	1	5%
Poor	0	0%	0	0%

The feedback shows that the majority of respondents continue to value the service being delivered.

3.0 Self-Assessment Checklist 2023

CIPFA has prepared a detailed checklist to enable conformance with the PSIAS and the Local Government Application Note to be assessed. The checklist was originally completed in March 2014 and has since been reviewed and updated annually. Documentary evidence is provided where current working practices are considered to fully or partially conform to the standards. A comprehensive update of the checklist was undertaken in 2020, following revisions by CIPFA.

Current working practices are considered to be at standard. However, as in previous years there are a few areas of non-conformance. These areas are mostly as a result of Veritau being a shared service delivering internal audit to a number of clients as well as providing other related governance services. None of the issues identified are considered to be significant. Existing arrangements are considered appropriate for the circumstances and require no further action.

The following table shows areas of non-compliance. These remain largely unchanged from last year although one area has been added. This relates to performance monitoring. Monitoring of performance is undertaken on an ongoing basis. For example, monitoring of the quality, efficiency and effectiveness of audit delivery is a routine consideration as part of audit supervision and management arrangements. However, it is difficult to identify and define tangible indicators of performance that provide meaningful information to internal audit clients. Historic targets focussed on data that could be quantified (for example numbers of audits complete or numbers of recommendations made). However, these do not provide any information about the value of audit

work delivered. This issue is not unique to Veritau and is an area of ongoing discussion as part of internal audit professional networks. Development of new tools for measuring performance has been identified as a priority as part of the internal audit strategy (see below).

Conformance with Standard	Current Position
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the audit committee before the engagement was accepted?	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The scope (and charging arrangements) for any specific engagement will be agreed by the Head of Internal Audit and the relevant client officer. Engagements will not be accepted if there is any actual or perceived conflict of interest, or which might otherwise be detrimental to the reputation of Veritau.
Are consulting engagements that have been accepted included in the risk-based plan?	Consulting engagements are commissioned and agreed separately.
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	An approach to using other sources of assurance (assurance mapping) has been developed as part of the internal audit strategy (see below). However, this will only be used where we are able to secure client engagement in the assurance mapping process.
Does ongoing performance monitoring contribute to quality improvement through the effective use of performance targets?	Historic targets used as performance measures do not provide meaningful information about the value of audit work delivered. Development of new measurement tools is a priority as part of the internal audit strategy (see below).

4.0 External Assessment

As noted above, the PSIAS require the Head of Internal Audit to arrange for an external assessment to be conducted at least once every five years to ensure the continued application of professional standards. The assessment is intended to provide an independent and objective opinion on the quality of internal audit practices.

An external assessment of Veritau internal audit working practices was last undertaken in November 2018 by the South West Audit Partnership (SWAP). SWAP is a not for profit public services company operating primarily in the South West of England. As a large shared service internal audit provider it has the relevant knowledge and expertise to undertake external inspections of other shared services and is independent of Veritau.

The assessment consisted of a review of documentary evidence, including the self-assessment, and face to face interviews with a number of senior client officers and Veritau auditors. The assessors also interviewed audit committee chairs.

A copy the external assessment report is available on request.

The report concluded that Veritau internal audit activity generally conforms to the PSIAS³ and, overall, the findings were very positive. The feedback included comments that the internal audit service was highly valued by its member councils and other clients, and that services had continued to improve since the last external assessment in 2014.

Another external assessment is due. Veritau has commissioned the Institute of Internal Auditors to carry out an assessment in summer 2023. The work will be undertaken in July and August. The results of the assessment will be reported to this committee when completed.

5.0 Improvement Action Plan

Overall, internal audit services provided by Veritau continue to meet the requirements of the Public Sector Internal Audit Standards. However, we recognise that the pace of change in local government and the wider public sector mean that we need to update aspects of the service to ensure it stays up to date and continues to deliver good value.

Between autumn 2020 and autumn 2021, Veritau undertook a fundamental review of internal audit practices. This resulted in the development of a new three-year strategy which details how we will improve the internal audit service for our clients. The strategy sets out the actions we are taking to modernise our practices. The five key areas for development identified in the strategy are:

- ▲ increasing engagement across all clients; to improve communication and ensure we understand what represents good value and where internal audit work should be focussed
- ▲ further development of strategic planning frameworks; focussing on further development of assurance mapping arrangements and other activities that help us ensure we provide assurance in the right areas at the right time
- ▲ redesign and modernisation of audit processes; to ensure we can respond quickly as priorities change, reduce time to deliver findings and manage resources efficiently

³ PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

- ▲ increasing investment in high value data analytics work; shifting the focus of work towards a data driven model that provides wider assurance in real time
- ▲ introducing better measures of outcomes from audit work, to enable us to direct resources to areas of most value to our clients.

A full review of the strategy is currently underway. A refreshed three-year strategy will be adopted in autumn 2023. This will incorporate any areas for development highlighted by the upcoming external quality assessment being undertaken by the IIA. Establishing new tools to measure the value provided by audit work will remain a priority. Based on current thinking and development work, this is likely to encompass a balanced scorecard type approach.

Due to other service delivery priorities, no new quality assurance reviews have been undertaken by the Quality Assurance Group in 2022/23. This does not impact directly on compliance with internal audit standards (there is no requirement for this additional layer of quality assurance). However, we feel the work of the group represents good practice. The re-establishment of additional quality assurance reviews will be a priority for 2023/24.

6.0 Overall Conformance with PSIAS

(Opinion of the Head of Internal Audit)

Based on the results of the quality assurance process I consider that the service generally conforms to the Public Sector Internal Audit Standards, including the *Code of Ethics* and the *Standards*.

The guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards.

COUNTER FRAUD ANNUAL REPORT 2022/23

Date: 20 July 2023

APPENDIX 2



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Jonathan Dodsworth
Assistant Director - Corporate Fraud



Max Thomas
Head of Internal Audit

Circulation list: Members of the Corporate Affairs and Audit Committee



BACKGROUND

- 1 Fraud is a significant risk to the public sector. The government estimates that the taxpayer loses up to £51.8 billion to fraud and error in public spending every year¹. Financial loss due to fraud can reduce a council's ability to support essential public services and cause reputational damage.
- 2 Veritau delivers a corporate fraud service to the Council which aims to prevent, detect and deter fraud and related criminality. We employ qualified criminal investigators to support departments with fraud prevention, proactively identify issues through data matching exercises, and investigate any suspected fraud. To deter fraud, offenders face a range of outcomes, including prosecution in the most serious cases.
- 3 The purpose of this report is to update the Corporate Affairs and Audit Committee about work undertaken by Veritau's counter fraud team during 2022/23.



SUMMARY OF WORK

- 4 The counter fraud team has continued to develop links with key services and officers to develop fraud awareness and undertake investigations where concerns are raised.
- 5 In 2022/23, the team received 48 referrals about suspected fraud and requests for assistance. Thirty-six investigations were completed across a range of council areas. Information was also provided to Legal Services to help trace eight debtors who collectively owed the Council in excess of £60k.
- 6 An adult social care investigation into deprivation of capital resulted in a warning being issued to an individual. They were also invoiced £18k in respect of care fees.



COUNTER FRAUD MANAGEMENT

- 7 Raising awareness of fraud amongst Council staff and the public is an important function of the counter fraud team. Awareness campaigns were undertaken to mark International Fraud Awareness Week and International Anti-Corruption Day in November and December 2022 respectively.
- 8 Veritau marked World Whistleblowers' Day in June 2022 by helping to increase awareness of whistleblowing, the protections offered to employees who raise a concern, and the need for managers to take the correct actions when a report is made.

¹ Fraud and Error (Ninth Report of Session 2021/22), Public Accounts Committee, House of Commons

- 9 The counter fraud team also worked with colleagues in Human Resources during the year to produce a revised Whistleblowing Policy which contains guidance for employees and managers. The new policy is expected to be released in 2023/24.
- 10 Specific counter fraud training was also provided to officers working within Human Resources, Adult Social Care, Legal, Finance, and Parking.
- 11 A quarterly newsletter is distributed to staff working within adult social care highlighting local and national fraud cases.
- 12 Bespoke anti-bribery training was provided to the Burials Team following an internal audit report which highlighted that employees in that area were facing an increased level of risk.
- 13 The threat of cybercrime continues to increase as councils and other organisations are targeted by increasingly sophisticated frauds. Awareness of the types of cybercrime affecting councils was raised with all members of staff during Cyber Security Awareness Month in October 2022.
- 14 Veritau oversee the Council's participation in the National Fraud Initiative (NFI). This is a large-scale data matching exercise that all councils are required to take part in, along with other public sector bodies in the UK. The counter fraud team ensure appropriate privacy notices are in place before collecting, processing and securely providing data to the NFI.
- 15 To help the Council meet its obligations under the Local Government Transparency Code 2015, Veritau provided transparency data on counter fraud work completed in 2022/23. This information is published online.
- 16 Veritau's counter fraud team represents the Council at regional and national counter fraud groups. Veritau participates in regular meetings of the North East Counter Fraud Group and the North East Tenancy Fraud Forum. Veritau also participates in and chairs a national Fighting Fraud and Corruption Locally working group examining issues relating to adult social care fraud.



COUNTER FRAUD STRATEGY ACTION PLAN

- 13 In September 2022, the Corporate Affairs and Audit Committee considered a strategy action plan designed to help develop counter fraud arrangements at the Council. The table below shows the progress made against the agreed actions. The action plan will be updated with new actions and priorities in September 2023.

Ref	Action	Status	Update
1	Review guidance issued by the Public Sector Fraud Authority (PSFA); identify recommended actions and implement as required.	Ongoing	Informal discussions have been held with the PSFA, however no guidance has been issued for local government to date.
2	Promote counter fraud work to more departments at the Council.	Ongoing	Discussions have been held with the Council's insurance provider to establish whether joint working would be productive. Engagement with other departments is ongoing.
3	Increase responsibilities around the investigation of National Fraud Initiative (NFI) data matching.	Complete	The counter fraud team has begun the investigation of matches released by the NFI.
4	Update the Council's Anti-Fraud, Bribery and Corruption Policy.	Complete	An updated policy was approved by the committee in September 2022.
5	Promote counter fraud reporting lines to members of the public and staff.	Complete	Reporting lines were promoted during International Fraud Awareness Week in November 2022.

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