

Borough Council of King's Lynn and West Norfolk

Annual Report and Opinion 2022/23

**Responsible Officer: Faye Haywood – Internal Audit Manager for Borough Council of King's
Lynn and West Norfolk**

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1. INTRODUCTION

- 1.1 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”.
- 1.2 Those standards – the Public Sector Internal Audit Standards - require the Chief Audit Executive to provide a written report to those charged with governance (known in this context as the Audit Committee) to support the Annual Governance Statement (AGS). This report must set out:
- The opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control during 2022/23, together with reasons if the opinion is unfavourable;
 - A summary of the internal audit work carried from which the opinion is derived, the follow up of management action taken to ensure implementation of agreed action as at financial year end and any reliance placed upon third party assurances;
 - Any issues that are deemed particularly relevant to the Annual Governance Statement (AGS);
 - The Annual Review of the Effectiveness of Internal Audit, which includes; the level of compliance with the PSIAS and the results of any quality assurance and improvement programme, the outcomes of the performance indicators.
- 1.3 When considering this report, the statements made therein should be viewed as key items which need to be used to inform the organisation’s Annual Governance Statement, but there are also a number of other important sources to which the Audit Committee and statutory officers of the Council should be looking to gain assurance. Moreover, in the course of developing overarching audit opinions for the authority, it should be noted that the assurances provided here, can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes subject to internal audit review. The annual opinion is thus subject to inherent limitations (covering both the control environment and the assurance over controls) and these are examined more fully at **Appendix 3**.

2. ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

2.1 Roles and responsibilities

- The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.
- The AGS is an annual statement by the Leader of the Council and the Chief Executive that records and publishes the Council’s governance arrangements.
- An annual opinion is required on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control, based upon and limited to the audit work performed during the year.

This is achieved through the delivery of the risk based Annual Internal Audit Plan discussed and approved with the Management Team and key stakeholders and then approved by the Audit Committee.

The Internal Audit plan was approved at the meeting held in April 2022. This opinion does not imply that internal audit has reviewed all risks and assurances, but it is one component to be considered during the preparation of the AGS.

The Audit Committee should consider this opinion, together with any assurances from management, its own knowledge of the Council and any assurances received throughout the year from other review bodies such as the external auditor.

2.2 The opinion itself

The overall opinion in relation to the framework of governance, risk management and control at Borough Council of King's Lynn and West Norfolk is **reasonable**.

A total of 13 assurance audits have now been completed, 12 of which have received a positive assurance grading. In addition two Position Statements (advisory work) have been carried out for Project Management and Climate Sustainability providing suggested improvements for management to address.

It is encouraging to note that of those 12 mentioned above, five audits have resulted in a Substantial assurance grading:

- Corporate Health and Safety
- Anti-Social Behaviour and Community Safety
- Key Controls and Assurance
- Economic Growth
- Software Licenses.

One audit on Procurement and Contract Management has resulted in a Limited assurance grading. A total of 13 recommendations were raised - one high, seven medium and five low.

We recommend that the high and medium priority findings raised within this report are referenced within the Council's Annual Governance Statement, until such time that verification work to demonstrate that improvements are embedded is undertaken, a summary of those recommendations can be found at section 3.5 of this report.

In providing the opinion the Council's risk management framework and supporting processes, the relative materiality of the issues arising from the internal audit work during the year and management's progress in addressing any control weaknesses identified therefrom have been taken into account.

The opinion has been discussed with the Section 151 Officer prior to publication.

3. **AUDIT WORK UNDERTAKEN DURING THE YEAR**

3.1 **Appendix 1** records the internal audit work delivered during the year on which the opinion is based, and provides the assurance opinion, the number of recommendations raised and the year-end position in addressing the issues raised.

In addition, **Appendix 2** is attached which shows the assurances provided over previous & current financial years to provide an overall picture of the control environment. This assurance chart highlights the progress that has been made in areas whereby negative assurances have previously been concluded.

3.2 Internal audit work is divided into 4 broad categories:

- Annual opinion audits;
- Fundamental financial systems that underpin the Council's financial processing and reporting;

- Service area audits identified as worthy of review by the risk assessment processes within internal audit;
- Significant computer systems which provide the capability to administer and control the Council's main activities.

3.3 Summary of the internal audit work

In 2022/23 Internal Audit has issued 13 assurance reports – five substantial, seven reasonable and one limited. In addition two position statements for Climate Sustainability and Project Management have been completed to provide advisory points for management consideration in these areas.

Revisions to the audit plan resulted in five audits being deferred: IT Governance; Network Infrastructure and Security; Cost Reduction Programme; Homelessness and Housing Options; and Corporate Governance. These revisions and explanations for them have been presented to Audit Committee throughout the year.

The executive summaries from finalised Internal Audit reports from 2022/23 have now been presented to the Audit Committee, ensuring open and transparent reporting, and enabling the Committee to review key service area controls and the conclusions reached.

3.4 Follow up of management actions.

In relation to the follow up of management actions to ensure that they have been effectively implemented the position at year end is that 51 recommendations in total are overdue.

A total of three medium priority recommendations are outstanding from 2018/19.

A total of 11 recommendations (10 medium and one low priority) are outstanding from 2019/20.

One medium priority recommendation in relation to ICT – Cyber Security is outstanding from 2020/21.

A total of 33 recommendations (six high, 12 medium and 15 low priority) are outstanding from 2021/22.

A total of 79 recommendations have been agreed in 2022/23 and 22 recommendations have been completed. Three recommendations are outstanding (one medium and two low); and 54 recommendations are not yet due.

Please refer to the separate **Internal Audit Follow Up Report August 2023**, which shows the details of the progress made to date in relation to the implementation of the agreed recommendations and provides an update from management regarding all high and medium priority recommendations.

3.5 Issues for inclusion in the Annual Governance Statement

As stated within the opinion statement, Internal Audit recommends that the one high, and seven medium recommendations raised from the Procurement and Contract Management audit report are highlighted within the Council's Annual Governance Statement until they are complete. The recommendations are summarised as follows:

High

- The CSOs should be reviewed and updated where appropriate; for example, the name of the current Monitoring Officer and the names of the current Procurement Team members should be included. The CSOs should also be updated to make reference to the publication of contracts in FTS above the UK threshold (replacing the reference to the publication of contracts in OJEU above the EU threshold). The CSOs should state the frequency of review and the date of the next review. The Council's Procurement Rules as stated on the Authority's website should be updated to reflect the requirement to publish contracts above the UK thresholds in FTS. Also, the threshold levels should be updated.

Medium

- All procurements over £25,000 should be brought to the attention of Procurement to ensure that procurement rules / CSOs are followed. Procurement should send out a global email to all departments and service areas within BCKLWN and AWN requesting them to provide details of all procurements over £25,000, and send out a reminder email each year. Procurement should monitor responses to ensure all are returned, instead of accepting a non-response as meaning no contracts are in place. If nothing is forthcoming, Procurement need to escalate it to the appropriate AD. This will ensure that Procurement are made aware of all contracts negotiated by the Authority and that they are recorded in the Contracts Register. The Procurement Strategy should be amended to state that all procurements over £25,000 are brought to the attention of the Procurement Team, which is in line with the tender threshold. In addition, Procurement should check that a valid contract exists before a new supplier is set up on the Finance system.
- All officers within the Authority should be required to complete the Procurement e-learning module. It should also be included within the induction programme so that all new starters are required to complete it. Appropriate face-to-face training should be provided by the Procurement Team to senior officers/budget holders to raise awareness of CSOs and the Procurement Rules. The training should include commercial awareness, negotiation skills and contract management. Procurement and contract management awareness training should be provided to Members.
- Procurement should be given access to the Analyser function within Unit4 to enable them to analyse supplier spend during the year. Budget override facilities and fund check alerts should be built into Unit4 so as to alert budget managers where spend exceeds CSO thresholds.
- Procurement Team should review all current contracts to establish whether they contain KPIs and ensure that contract extensions and future procurement exercises consider performance measures within contract specifications. The Authority's standard contract and framework agreement templates should be updated to include a section on performance management and KPIs.
- Procurement should compile a guide on contract management and performance monitoring for service departments and include the following requirements in the training provided to senior officers and budget holders. Procurement should check a sample of minutes of performance monitoring meetings on a regular basis as part of a health check.
 - Regular performance monitoring meetings should be held with contractors, at which performance against KPIs should be discussed;
 - Performance monitoring meetings with contractors should be formally minuted;
 - Regular performance data should be provided to the Authority by the contractor, which should then be validated.

- The Procurement Team should set up a register listing all PPNs received. This should include the date each PPN was issued and the date it was actioned by the Authority, enabling analysis of the timeliness of implementing each PPN to be monitored, and outline the action taken to implement each notice. The register should be regularly reconciled to the list of PPNs issued on the Cabinet Office website to confirm that the Authority has received all relevant PPNs.
- The Exemptions Register should be enhanced to include the following: the reason(s) for the exemption being requested and the appropriate CSO ref; confirmation that the form has been signed by the appropriate Executive Director, Procurement Officer and the Monitoring Officer; a link to the relevant exemption form. In addition to the exemption form itself, copies of authorising emails should be held in the Exemptions folder on the Procurement P:Drive. As part of the training programme, Procurement should remind senior officers/budget holders of the requirement to complete an exemption form, where applicable. The exemptions listed in the 2012-2022 tab in the Exemptions Register should be reconciled to those recorded under each individual tab to ensure that all exemptions are fully accounted for.

In addition to the above-mentioned actions, we recommend that any outstanding high and medium recommendations from limited assurance reports in previous financial years are reflected in the Council's Annual Governance Statement until they have been verified as complete. The following recommendations apply:

2021/22 Alive West Norfolk

High

- A suite of new SLAs should be developed for the relevant Service Areas included in the previous SLA. These need to be developed at the earliest possible opportunity. A new agreed set of KPIs should be produced for each Service Area within the SLA, to ensure the service is being provided efficiently and effectively for both parties. The KPIs should be monitored and reported appropriately to the AWN Board, and a relevant Council body if required.
- Responsible officers from finance and AWN to consider the fees and charges going forward, with a view to amending these to the appropriate values. There is mention within the Financial SLA of additional costs should senior financial officers need to be involved in accounting queries. This cost should ideally be an hourly rate for the services provided, agreed by both parties prior to work commencing. The financial budgets should be amended and reflect actual, and agreed, costs rather than expected costs.

Medium

- When the Management Agreement is next due for review, consider if it is appropriate for member involvement in decisions of AWN.

2021/22 Waste Management Contract

Medium

- The contractor's Public & Products Liability Insurance minimum limit of indemnity should be raised from £5m to £10m for each claim to bring it in line with the minimum limit as stated in the contract.

2021/22 Capital Programme

High

- The governance process should be enhanced before projects are submitted for inclusion within the Capital Programme. Detailed information relating to finance, resource and risks should be included within project information submitted to Management Team for consideration.
- Consider creating a suite of documents to enable a complete and fully informed decision-making process.
- There should be a consistent approach to appraising the viability of a project, enabling officers and Members to be fully informed about a project, prior to inclusion on the Capital Programme. There is ongoing dialogue with the Chair of the Officer Major Project Board (OMP) regarding the Terms of Reference for the Project Development Group (PDG) and the OMP. The PDG could be the mechanism to assess the viability of a project prior to Management Team and Cabinet approval, ensuring consistent approach to appraising project viability.
- To use the Business Case documentation submitted within the Town Investment Plan (TIP), and subsequently submitted to Central Government as Business Cases, uses consistent headings that include: objectives; aims; scope; financial implications, including revenue costs and future costs (resource and maintenance costs); resource requirements; and risk registers.

It is very encouraging to note that from October 2022 to May 2023 a total of 87 recommendations have been completed. The Council may however wish to disclose that it continues to commit to reducing the significant number of outstanding internal audit recommendations. This ensures that good governance can be demonstrated by mitigating the risks that have been identified by internal audit work in a timely manner.

4. THIRD PARTY ASSURANCES

- 4.1 In arriving at the overall opinion reliance has been placed on the work of an independent third-party consultant for IT Security. The report provided to Internal Audit describes the Council's security posture as having a progressive approach to Cyber Security. It is reported that there are no critical gaps that emerged during conversation, and there is a continued input and involvement from the organisation to improve their security posture. In order not to duplicate the assurances provided by the Senior Cyber Risk Consultant, the Head of Internal Audit has relied on the result of this work for the purposes of considering the Council's overall opinion.

5. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

5.1 Quality Assurance and Improvement Programme (QAIP)

5.1.1 Internal Assessment

A checklist for conformance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note has been completed for 2022/23. This covers: the Definition of Internal Auditing, the Code of Ethics and the Standards themselves.

The Attribute Standards address the characteristics of organisations and parties performing Internal Audit activities, in particular, Purpose, Authority and Responsibility, Independence and Objectivity, Proficiency and Due Professional Care, and Quality Assurance and Improvement Programme.

The Performance Standards describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated, in particular: Managing the Internal Audit Activity, Nature of Work, Engagement Planning, Performing the Engagement, Communicating Results, Monitoring Progress and Communicating the Acceptance of Risks.

An assessment was carried out in October 2021 by the Internal Audit Manager and a total of two out of nine recommendations remain as follows;

1. To provide assurance required over complex risks identified within the Corporate Risk Register it is advised that IT audit resource is used to undertake this work for the Council in future.

- It has been agreed that where IT assurances are required, the Council will seek to use the EIAS agreement to use outsourced resources with specialist knowledge.

2. Follow up process to be redesigned allowing for quarterly reporting to Management Team, Audit Committee and to allow for Internal Audit verification of completed recommendations.

- The first stages of the process are underway. Updates have been gathered and the process redesigned. Continuous monitoring to be actioned throughout 2023/24.

A number of further actions have been added and progressed with the team as follows.

- Training needs analysis undertaken with Internal Team to ensure that skills are refreshed. Relevant training has been booked and staff have started courses to obtain relevant auditing qualifications.
- Scoping and reporting templates have been re-designed with Senior Management and the Audit Committee in mind to ensure that key information is highlighted earlier and more succinctly.
- The team is recruiting to an Apprentice role to safeguard the long-term sustainability of the in-house internal audit function.

5.1.2 External Assessment

In relation to the Attribute Standards, it is recognised that to achieve full conformance an external assessment is needed. An external assessment was carried out in October 2022 by the Chartered Institute of Internal Auditors (IIA). We are pleased to report that we received a 'generally conforms' result, with conformance in 60 out of 64 areas (two areas were not applicable, and two resulted in 'partially conforms'). An extract from the report is provided at **Appendix 4**. A full copy of the report can be provided to members upon request.

It was highlighted, that we are particularly good at: reflection of the standards; focus on performance, risk and adding value; and QAIP. Positive feedback received from key stakeholders highlights that that we are 'professional and have an excellent reputation'.

One area of partial conformance was highlighted in coordinating and maximising assurance. Since October, this area has been improved as part of annual internal audit planning. Within the Strategic and Annual Plans report 2023/24 presented in March 2023, an Assurance Map was provided, outlining the top risks, along with first, second and third lines of assurance.

The second area of partial conformance was raised to ensure that we receive an External Quality Assessment as it falls due on the five-year anniversary.

5.2 Performance Indicator outcomes

5.2.1 The Internal Audit Service was benchmarked against three performance indicators in 2022/23. The results are as follows: The results show that in all cases the team has exceeded their targets, demonstrating that reports are well received by senior management and recommendations made and agreed are perceived as value adding.

Measure	Target	Result
Number of completed fraud/corruption investigations (including data matching exercises)	5,000	5,293
Percentage of internal audit recommendations accepted by management	90%	99.17%
Officer Satisfaction of Internal Audit performance	3 – Good	4.72 – Very Good

APPENDIX 1 – AUDIT WORK UNDERTAKEN DURING 2022/23

Audit Area	Assurance	No of Recs	Implemented	High OS	Medium OS	Low OS	Not yet due
Corporate Health and Safety	Substantial	1	0	0	0	1	0
Business Continuity	Reasonable	9	7	0	1	1	0
Project Management Framework	Position Statement						
Business Planning & Performance Management	Reasonable	3	0	0	0	0	3
Procurement and Contract Management	Limited	13	1	0	0	0	12
Environmental Protection	Reasonable	13	5	0	0	0	8
ASB Community Safety	Substantial	5	1	0	0	0	4
Accounts Receivable	Reasonable	8	0	0	0	0	8
Income	Reasonable	5	0	0	0	0	5
Key Controls and Assurance	Substantial	2	0	0	0	0	2
Economic Growth	Substantial	3	0	0	0	0	3
Software Licensing	Substantial	0	0	0	0	0	0
Towns Fund	Reasonable	9	8	0	0	0	1
Accountancy Services	Reasonable	8	0	0	0	0	8
Climate Sustainability	Position Statement						
Total		79	22	0	1	2	54

Assurance level definitions		Number
Substantial Assurance	Based upon the issues identified there is a robust series of suitably designed controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our audit review were being consistently applied.	5
Reasonable Assurance	Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisations management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.	7
Limited Assurance	Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.	1
No Assurance	Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.	0

APPENDIX 2 – ASSURANCE CHART

	2021-22	2022-23	2023-24
Annual Opinion and Governance Audits			
Corporate Health and Safety		Substantial	
Policies	Reasonable		
Data Sharing Arrangements	Reasonable		
Project Management Framework		Position Statement	
Business Planning and Performance Management		Reasonable	
Procurement and Contract Management		Limited	
Corporate Governance			X
Key Controls and Assurance		Substantial	X
Counter Fraud and Corruption			X
Cost Management Programme			X
Complaints and FOIs			X
Fundamental Financial Systems			
Accounts Payable	Reasonable		
Benefits	Reasonable		
Financial Governance and Budgetary Control	Reasonable		
Council Tax and NNDR	Reasonable		X
Financial Management Systems	Reasonable		
Payroll and HR	Substantial		X
Accounts Receivable		Reasonable	
Income		Reasonable	
Accountancy Services		Reasonable	
Local Council Tax Support and Housing Benefits			X

	2021-22	2022-23	2023-24
Service Area Audits			
Alive West Norfolk	Limited		
Capital Programme	Limited		X
Economic Growth	Reasonable	Substantial	X
Emergency Planning and Management/Business Continuity	Reasonable	Reasonable	
Food Hygiene, Health & Safety and Public Health	Substantial		
Housing Standards/HMOs	Reasonable		X
Licensing	Substantial		
Planning Enforcement	Reasonable		
Street Cleansing	Substantial		
Waste Management	Limited		X
Environmental Protection		Reasonable	
Anti-Social Behaviour/Community Safety			
Homelessness and Housing Options			X
Towns Fund		Reasonable	
Climate Sustainability		Position Statement	
Organisational Development - Training			X
West Norfolk Housing Company Ltd			X
West Norfolk Property Ltd			X
Public Open Space incl. play areas, tree management			X
Land Charges			X
Community Infrastructure Levy			X
IT Audits			
Cyber Security	Reasonable		
Disaster Recovery	Substantial		
Software Licensing		Substantial	
Starters, Movers, Leavers			X
IT Governance			X

APPENDIX 3 – LIMITATIONS AND RESPONSIBILITIES

Limitations inherent to the Internal Auditor's work

The Internal Audit Annual Report has been prepared and the internal auditors undertook the agreed programme of work as approved by management and the Audit Committee, subject to the limitations outlined below.

Opinions

The opinions expressed are based solely on the work undertaken in delivering the approved 2022/23 Annual Internal Audit Plan. The work addressed the risks and control objectives agreed for each individual planned assignment as set out in the corresponding audit planning memorandums (terms of reference) and reports.

Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve corporate/service policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness. Internal control systems essentially rely on an ongoing process of identifying and prioritising the risks to the achievement of the organisation's policies, aims and objectives, evaluating the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. That said, internal control systems, no matter how well they have been constructed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

Internal Audit's assessment of controls relating to Borough Council of King's Lynn and West Norfolk is for the year ended 31 March 2023. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in the operating environment, law, regulation or other matters; or,
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

The Internal Audit Manager has sought to plan Internal Audit work, so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, additional work will then be carried out which is directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, does not guarantee that fraud will be detected, and internal auditors' examinations should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

APPENDIX 4 – EXTERNAL QUALITY ASSESSMENT REPORT EXTRACT

Conformance Opinion

The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards.

There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.

It is our view that internal audit activity conforms to 60 of the 64 relevant principles, with partial conformance on two principles. Two of the principles were not relevant as they relate to situations that have not occurred to date.

This is summarised in the table below.

Summary of conformance	Standards	Generally conforms	Partially conforms	Does not conform	Not relevant	Total
Definition of IA and Code of Ethics	Rules of conduct	12				12
Purpose	1000 - 1130	8				8
Proficiency and Due Professional Care (People)	1200 - 1230	4				4
Quality Assurance and Improvement Programme	1300 - 1322	5	1		1	7
Managing the Internal Audit Activity	2000 - 2130	11	1			12
Performance and Delivery	2200 - 2600	20			1	21
Total		60	2	0	2¹	64

¹ These relate to circumstances which prior to the external quality assessment were deemed not relevant, namely the Disclosure of Non-conformance and Engagement Disclosure of Non-conformance, which have not been necessary to date.