

Report to Audit Committee

2022/23 Annual Report to Audit Committee

Portfolio Holder: Councillor Abdul Jabbar MBE, Cabinet Member for Finance and Corporate Resources

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27 June 2023

Reason for Decision

To provide Members with the Annual Report and Opinion for 2022/23 on the System of Internal Control for the year ended 31 March 2023 presented by the Head of Audit and Counter Fraud, and report to the Audit Committee on the matters required for the Committee charged with Governance by International Auditing Standards, and the 2013 UK Public Sector Internal Audit Standards (Revised 2016 and 2017).

Executive Summary

The report summarises the work of Internal Audit and Counter Fraud Team carried out for the financial year 2022/23 which informs the Annual Report and Opinion of the Head of Audit and Counter Fraud on the System of Internal Control for the year ended 31 March 2023.

The Annual Report for 2022/23 has the following sections detailed below:

- **Appendix 1:** Annual Report and Opinion of the Head of Audit and Counter Fraud on the System of Internal Control for the year ended 31 March 2023, to assist the Committee's review of the 2022/23 Annual Governance Statement (AGS) and to assist with the review of the Statement of Accounts.
- **Appendix 2:** Counter Fraud and Direct Payments Teams comparative data 2020/21 to 2022/23.

The 2022/23 Annual Governance Statement (AGS) is reported elsewhere on this agenda, and it identifies eight significant issues for the Council to mitigate its risks during 2023/24.

The progress made in mitigating these risks will be reported regularly to the Audit Committee.

The financial year 2022/23 was again a challenging year due to the Council returning to operate as business as usual with the residual impact of the pandemic providing some challenges. In terms of the work of the Internal Audit Service, additional work was again undertaken to support the administration of business grants. Effort was however concentrated on ensuring the work on fundamental financial systems was prioritised.

Recommendations

Members are requested to note the Annual Report on the System of Internal Control presented by the Head of Audit and Counter Fraud and the continued developments in overall internal control and financial administration across the Council.

2022/23 Annual Report to the Audit Committee**1. Background**

- 1.1 This report summarises the work of Internal Audit and Counter Fraud Team carried out in respect of the financial year 2022/23 informing the Annual Report and Opinion of the Head of Audit and Counter Fraud on the System of Internal Control for the year ended 31 March 2023.

2. Audit Opinion and Work Undertaken in 2022/23

- 2.1 The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and replaced the 2006 Code of Practice. The PSIAS were subsequently revised in both 2016 and 2017. Therefore, from 2013/14, the Head of Internal Audit and Counter Fraud has provided an Annual Report in accordance with the PSIAS to support the production of the Annual Governance Statement (AGS). The financial year 2022/23 continued to see the Council return to operating as business as usual with some residual impacts arising from the pandemic including on the workloads of many Internal Audit Services within Local Authorities, including Oldham around the need for grant assurance for payments in previous financial years.
- 2.2 The overall opinion of the Head of Audit and Counter fraud for 2022/23 and its professional framework is set out at **Appendix 1**.
- 2.3 **Appendix 2** summarises the outcomes from the Counter Fraud and Direct Payment Teams for 2020/21 to 2022/23.

3. Options/Alternatives

- 3.1 The Audit Committee can either choose to accept and note the Annual Report on the System of Internal Control or not to accept the report.

4. Preferred Option

- 4.1 The preferred option is that the Audit Committee accepts and notes the Annual Report on the System of Internal Control

5. Consultation

- 5.1 N/A.

6. Financial Implications

- 6.1 N/A.

7. Legal Services Comments

- 7.1 N/A.

8. Cooperative Agenda

- 8.1 N/A.

9. **Human Resources Comments**

9.1 N/A.

10. **Risk Assessments**

10.1 The production of an Annual Report on the System of Internal Control by the Audit and Counter Fraud Team will enable this Committee to demonstrate it is raising any concerns with the Council in a structured manner.

11. **IT Implications**

11.1 N/A.

12. **Property Implications**

12.1 N/A.

13. **Procurement Implications**

13.1 N/A.

14. **Environmental and Health & Safety Implications**

14.1 N/A.

15. **Equity, Community Cohesion and Crime Implication**

15.1 N/A.

16. **Equality Impact Assessment Completed**

16.1 No.

17. **Forward Plan Reference**

17.1 N/A.

18. **Key Decision**

18.1 No.

19. **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are included as Appendices 1 and 2
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20. **Appendices**

20.1 The following Appendices are available to support this Report:

- **Appendix 1:** Annual Report and Opinion of the Head of Audit and Counter Fraud on the System of Internal Control for the year ended 31 March 2023; to assist the Audit Committee's review of the 2022/23 Annual Governance Statement.
- **Appendix 2:** Internal Audit and Counter Fraud Team comparative data 2020/21 to 2022/23.

Audit and Counter Fraud Team

**Annual Report of the Head of Audit and Counter Fraud
and Opinion on the System of Internal Control for the
year from 1 April 2022 to 31 March 2023**

27 June 2023

Annual Report of the Head of Audit and Counter Fraud and Opinion on the System of Internal Control for the year from 1 April 2022 to 31 March 2023.

1. Introduction

1.1 Background

The Internal Audit and Counter Fraud Plan for 2022/23 was developed based on an assessment of risks to the Council including those contained in the Corporate Plan and Corporate Risk Registers. The work aims to provide assurance to the Chief Executive and other senior officers of the Council, including the Key Statutory Officers (Section 151 and Monitoring Officers), on systems and controls in place that assist the Directorates in meeting their objectives.

The work allows the Head of Internal Audit and Counter Fraud at Oldham Council to form an overall opinion on the Governance and Risk Management arrangements in the Council and the effectiveness of the Council's internal control systems.

The opinion also considers advisory work undertaken (such as preventing loss on business grants administered by the Council by providing assurance as part of the Government's response to COVID) during the year. High priority findings from such reviews contribute to the overall opinion that is reported.

The opinion is then used to support the production of the Council's Annual Governance Statement (AGS) within the Statement of Final Accounts for the Financial Year 2022/23.

During financial year 2022/23 planned work of the Internal Audit Service was again impacted by the residual effects of the COVID-19 pandemic. The Service has continued to support effective internal control in the administration of COVID related and non-COVID related grants, and to prioritise work in connection with the Authority's Fundamental Financial Systems.

This report sets out the framework used to complete the Annual Opinion on the System of Internal Control and is supported by the key audit findings in the main body of this Appendix.

1.2 2013 Public Sector Internal Audit Standards (Revised 2017)

The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 (revised in both 2016 and 2017). These Standards replaced the 2006 Code of Practice applicable to the work of Internal Audit. From 2013/14 the Head of Internal Audit and Counter Fraud has provided an annual report in accordance with the PSIAS to support the production of the Council's Annual Governance Statement (AGS).

The Standards note that a professional, independent, and objective Internal Audit service is one of the key elements of good governance, as recognised throughout the UK public sector. The role of the Head of Internal Audit (HIA), in accordance with the PSIAS, is to provide an Annual Opinion on the System of Internal Control, based upon the work performed, on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes, i.e., the organisation's system of internal control. This is achieved through a risk-based plan of work, agreed with management and approved by the Council's Audit Committee, which should provide a reasonable level of assurance.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Statement on the role of the Head of Internal Audit (HIA) in Local Government was issued on 9 April 2019. This Statement also included updated guidance for internal audit in the public sector to contend with "restricted

resources and growing levels of financial risk.” This is not assisted by the External Auditor not having signed off the Statement of Accounts for 2021/22.

This guidance calls on the public sector to provide the required support and recognition for the HIA and Internal Audit Teams, and includes best practice guidance for Internal Auditors, leadership teams and Audit Committees to support Internal Audit effectiveness.

The publication “The role of the Head of Internal Audit’ sets out key principles aligned with the UK Public Sector Internal Audit Standards (PSIAS) and sets out an individual and organisation’s responsibilities. The guidance refers to:

- Heads of Internal Audit in the public sector working in increasingly high-pressure environments, contending with restricted resources and growing levels of financial risk, and they require the tools they need to provide quality assurance to their organisations;
- Public sector bodies ensuring that the HIA is “professionally qualified and suitably experienced” so they can lead and direct Internal Audit services which are well resourced and fit for purpose; and
- The HIA being a senior manager, with regular and open engagement across the organisation, particularly with the leadership team and Audit Committee.

The guidance also sets out the following:

- The assurance provided by the HIA must be evidence based, in order to provide proper comfort to those who ask for it, and to improve governance arrangements. This means that Internal Audit planning must be well focused and in accordance with professional standards;
- The HIA may obtain assurance from partners and other agencies, and the HIA must understand the basis for the assurance and its adequacy, and therefore whether the HIA needs to carry out any additional review work; and
- A summary of assurances given and relied upon should be included in the HIA’s annual report.

CIPFA also states that one of the HIA’s key relationships must be with the External Auditor. Whilst the roles of Internal and External Audit are different, and they must be independent of each other, both are concerned with the organisation’s control environment and both use an objective, risk-based approach in coming to their conclusions. External Auditors should have regular discussions with the HIA on audit findings, risks and future developments. Oldham Council’s HIA meets with the External Auditor on a regular basis.

1.3 Roles and Responsibilities

Reviewing the System of Internal Audit

The Council is responsible for maintaining a sound system of internal control which is reviewed by the Internal Audit team. To review the System of Internal Audit, the Audit Committee receives either an annual internal review of the Internal Audit function which discharges its responsibility for putting in place arrangements for gaining assurance about the effectiveness of that function, or commissions an independent external review.

The Public Sector Internal Audit Standards (PSIAS) also standards state that an external reviewer must undertake a full assessment or validate the Internal Audit Service’s own self-assessment at least once in a five-year period. This independent External Quality Assessment (EQA) has most recently been undertaken in March 2023 by the CIPFA.

The three possible outcomes of this assessment are that the Service “Generally Conforms”, “Partially Conforms”, or “Does Not Conform” with the requirements of the PSIAS and Local Government Application Note (LGAN).

The outcome of the March 2023 assessment is that Oldham's Internal Audit and Counter Fraud Function "Generally Conforms" across all areas assessed. The outcomes of this review are explored further at Section 14 of this report and reported in full in a separate report presented elsewhere on this agenda.

The Annual Governance Statement (AGS)

The AGS is an annual statement by the Council setting out:

- How the responsibilities of the Council are discharged with regard to maintaining a sound system of internal control that supports the achievement of Council policies, aims and objectives;
- The purpose of the governance arrangements as evidenced by a description of the risk management and review processes; 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.

The Council's framework of assurance should bring together all of the evidence required to support the AGS. The opinion does not imply that Internal Audit and Counter Fraud service have reviewed all risks and assurances relating to the Council. The purpose of the opinion is to contribute to the assurances available to the Council which underpin the Council's own assessment of the effectiveness of the organisation's governance arrangements and system of internal control.

This opinion is one component that the Council considers when preparing its AGS. The definition of a significant issue is contained within guidance on the AGS.

2. Head of Internal Audit Opinion

2.1 2022/23 Opinion

The overall opinion of Oldham Council's HIA is that the overall system of Internal Control in Oldham Council as at 31 March 2023 is Adequate.

The financial year 2022/23 has been another challenging year and, overall, the Council has continued to work effectively with partners to provide essential services as the issues arising from the pandemic recede.

As with all large organisations there are areas of improvement required including those identified in the AGS.

Whilst improvements in internal control continue to present challenges in some areas, core systems in the ownership of the Council's central Finance Function continue to provide compensatory controls and assurance over those areas where improvements are required. Going forward, the priority is for improvements to be made in the areas identified in the AGS.

There have been no impairments to the independence or objectivity of the HIA in arriving at this opinion.

2.2 Basis of the Opinion

The basis for forming the Annual Opinion is as follows:

- An assessment of the design and operation of the Local Code of Corporate Governance and underpinning processes;
- An assessment of the risk management arrangements and the financial management framework of assurance;
- An assessment of the range of individual opinions arising from risk-based audit assignments, contained within the Internal Audit risk-based plan that have been reported throughout the year;

This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses.

2.3 CIPFA/SOLACE Code of Corporate Governance

The Council has established corporate governance arrangements which are consistent with the seven principles of the CIPFA and Society of Local Authority Chief Executives (SOLACE) Framework, "Delivering Good Governance in Local Government".

It has adopted a Local Code of Corporate Governance refreshed at Audit Committee on 8 June 2023 which is publicised on the Council's website. The Council's 2022/23 AGS is the subject of a separate report to the Audit Committee, and it sets out how the Authority has complied with the Code and meets with the requirements of the Accounts and Audit (Amendment) Regulations 2022. The Authority meets the requirements of Regulation 6 (1) b of the Accounts and Audit Regulations 2015 and The Accounts and Audit (Amendment) Regulations 2022 in relation to the publication of an AGS. The AGS is subject to detailed review by the Audit Committee when it considers the draft Statement of Accounts and then approves the final Statements following the completion of the external audit process.

The Audit Committee is embedded as a key control within the Council. It has supported improvements within Internal Audit Processes, Corporate Governance and Risk Management and on the reporting of this work. The key outcomes of Internal Audit work are reported regularly to the Audit Committee during the year and, by virtue of this Annual Report, contribute to an opinion on the overall internal control environment of the Council. An added strength to the Audit Committee was the appointment of an appropriately qualified Independent Chair from 1 March 2023.

Reported separately to this Committee is the 2022/23 AGS, which identifies eight risk issues for the Council to mitigate during 2023/24. This report also highlights the progress made against the issues raised in the 2021/22 AGS. The Council has maintained its financial administration in most areas during 2022/23 and dealt with the ongoing challenges of the pandemic. Inevitably some front-line services have been under continued pressure and, in certain cases, improvements in financial administration fell short of what was planned.

3. Risk Management

The Strategic Risk Register is populated with risks to the achievement of the Council's corporate objectives and all risks are categorised and allocated to a responsible Member of the Management Board; these are supported by Service Risk Registers included in Business Plans.

The Service Business Plans, prepared annually, incorporate a Risk Register setting out the risks for each Service. All major projects of the Council have a Risk Register, which are subject to regular review. The risks facing the organisation from third parties are included in a report produced by the Assistant Director of Corporate Governance and Strategic Financial Management.

Reviews of current and emerging risks are presented to the Audit Committee as part of the regular update of the issues previously identified in the 2021/22 AGS and have been incorporated into the 2022/23 AGS.

4. 2022/23 Audit and Counter Fraud Plan

The 2022/23 Audit and Counter Fraud Plan was agreed by the Audit Committee at its meeting of 10 March 2022. Updates on progress have been reported to the Audit Committee during the 2022/23 financial year. The Audit Opinions agreed with managers contribute towards an element of the 2022/23 Annual Opinion, along with an assessment of materiality and the response by managers to implementing the agreed recommendations.

5. Financial Management

In 2022/23, financial management and administration for the Council continued to develop and a number of systems were relatively stable, namely:

- The Finance Department structure continues to develop in order to align senior Finance support to Council managers in accordance with the revised structure of the Council including from 1 April 2022, the incorporation of functions formerly undertaken by the staff of the Unity Partnership Limited after transfer to the Council. The Director of Finance continues to review staff resources and retention in response to changes in the team;
- In support of improved financial management, from months 3 to 9, monthly revenue and capital forecast outturn statements are produced for service managers along with a full suite of financial statements for the Management Board. Monthly liaison meetings are held with External Audit for assurance planning purposes. Reports are presented to Cabinet at months 3, 6, 8 and 9;
- A self-assessment against the Financial Management Code was reported to Audit Committee on 17 January 2022 which indicated that in most areas of recommended best practice the financial administration of the Authority is sound. This will be refreshed in 2023/24.

Whilst most system's audit opinions remained stable, there were four notable changes as follows:

- 1) A deterioration in the systems and controls surrounding the Council's payroll function which is now assessed by Internal Audit again as Inadequate following an Adequate opinion for 2021/22.
- 2) The opinion in relation to the systems and controls around Direct Payments in Adult Social Care. The controls in this area remain inadequate. However, Inadequate opinions in this area stretch back some years. The opinion has, therefore, been downgraded in this area to reflect the long-standing nature of the challenges in this area.
- 3) The downgrading of the opinion in relation to Accounts Receivable systems to Inadequate in relation to the procedures and controls in place around debt control. These changes are discussed further in Section 6 below.
- 4) The inaugural review of the systems and controls in connection with Children's Services found controls in this area to be inadequate, primarily in connection with a failure to fully record the inputs and outputs related to the work undertaken in a way which allows adequate management information to be produced.

Agreed priorities for the Council's financial management in 2023/24 are reported in the 2022/23 AGS. Progress will be reviewed and reported to the Audit Committee on a regular basis.

The year-end final accounts for 2022/23 were submitted for Audit on 31 May 2023, in line with the statutory deadline. In addition, all working papers supporting the financial statements have been subject to a structured, detailed and independent quality assurance process to ensure compliance with external audit guidelines.

During 2022/23 the Director of Finance reported directly to the Chief Executive and was a member of the Management Board. This is consistent with the principles of good financial management and complies with the Financial Management Code.

6. Fundamental Financial Systems (FFS)

In accordance with the 2022/23 Plan, Internal Audit continued to review all material fundamental financial systems.

Table 1 sets out the Final Audit Opinions across the Council’s main financial systems between 2020/21 and 2022/23.

Table 1: Key Financial Systems Final Audit Opinions 2020/21 to 2022/23

Financial System	2020/21	2021/22	2022/23
Accounts Payable	Adequate	Adequate	Adequate
Accounts Receivable	Adequate	Adequate	Inadequate
Bank Reconciliations	Good	Good	Good
Cash Income	N/A	Adequate	Good
Council Tax	Adequate	Inadequate	Adequate
Council Tax Reduction	Good	Adequate	Adequate
Fixed Assets	Adequate	Adequate	Adequate
Housing Benefits	Adequate	Adequate	Adequate
NDR (Business Rates)	Adequate	Adequate	Adequate
Payroll	Inadequate	Adequate	Inadequate
Direct Payments	Inadequate	Inadequate	Weak
Residential Care	Inadequate	Inadequate	Inadequate
Treasury Management	Good	Good	Good
Children’s Social Care	N/A	N/A	Inadequate
Audit Opinions	2020/21	2021/22	
Good	3	2	3
Adequate	6	8	6
Inadequate	3	3	4
Weak	-	-	1
N/A	2	1	-
Total	14	14	14

Overall, **Table 1** highlights a relatively stable control environment, in summary:

- There are three systems assessed as “Good” Treasury Management, Cash Income and Bank Reconciliations.
- As previously reported to this Committee, systems and controls in place around Payroll during 2021/22 had, after a number of years of “Inadequate” opinions, been assessed as “Adequate”. Unfortunately, the improvements made during 2021/22 were not maintained and the opinion in

this area has been downgraded again in 2022/23 to “Inadequate”. Section 6.1 discusses the Payroll arrangements resulting in this downgraded opinion.

- Adult Social Care financial systems based in the Community Health and Adult Social Care Directorate have continued to be placed under considerable strain during 2022/23. The audit opinions for both Personal Budgets / Direct Payments, and for Residential Care have been assessed as “Inadequate” for some years up to 2021/22. As a result of repeated “Inadequate” opinions over a number of years, the opinion in respect of Direct Payments systems and controls has, in 2022/23, been downgraded to “Weak”. This is discussed further below at Section 6.2.
- During 2021/22 the systems and controls surrounding Council Tax were assessed as “Inadequate”, solely in relation to debt recovery. In 2022/23 the findings in connection with Council Tax debt, NDR debt and Sundry Debtors have been consolidated in the Accounts Receivable report as the agreed recommendations in connection with debt recovery in all of these areas fall within the remit of the Assistant Director (Revenues and Benefits) appointed in January 2023. As with the opinion of “Inadequate” in respect of Council Tax for 2021/22, the opinion of “Inadequate” in connection with the Council’s Accounts Receivable report in 2022/23 is solely in relation to debt recovery. All other aspects of the Council Tax, NDR and Sundry Debtors systems are considered “Adequate”, as reflected in the improved opinion in relation to Council Tax in 2022/23. This is discussed further below at Section 6.3.
- The inaugural review of the systems and controls in connection with Children’s Services found controls in this area to be inadequate, primarily in connection with a failure to fully record the inputs and outputs related to the work undertaken in a way which allows adequate management information to be produced. This is discussed further below at Section 6.4.

For those systems which have been assessed as “Adequate” for a number of years, managers are encouraged to develop appropriate plans to facilitate the required improvement to “Good”. To support this, Internal Audit will continue to deliver financial systems audits and engage with key colleagues to facilitate this improvement.

In line with prior years, the Audit and Counter Fraud Team has continued in its professional collaboration with the Council’s External Auditors, Mazars LLP, and in completion of the annual FFS reviews in accordance with best practice, External Audit control objectives, professional standards, local risks and in support of the close-down of the 2022/23 accounts.

6.1 Payroll System: Update

The Council’s Payroll processes and procedures have historically been an area of persistent weakness, as identified in the AGS over a number of years.

Following a procurement exercise in April 2019, the Council agreed to implement iTrent, a leading HR and Payroll software package provided by Midland HR (MHR) which is used in many Local Authorities. The iTrent system replaced the Agresso payroll system (previously used for the Council and MioCare payroll) and the Selima system (previously used for Oldham Schools payroll). The implementation of the iTrent system took place on a phased basis starting in January 2021 with the Council and MioCare payrolls, February 2021 for Schools, and March 2021 for time and expenses functionality. Therefore, 2021/22 was the first full financial year the Council had operated this system.

The implementation of the iTrent system, as with all new and complex systems, was challenging for the Payroll Team. The implementation of a new IT system with this level of complexity seldom runs completely smoothly, and in this case presented an additional challenge by taking place during the pandemic where revised working practices were required. Several system issues arose during 2021/22. This is to be anticipated in any major system implementation. These were gradually, and successfully, resolved by the team over the course of the year.

The review of the internal controls in connection with Payroll during 2021/22 did not highlight concerns in connection with areas we would consider to be fundamental payroll weaknesses, e.g., failure to pay employees on time, or large numbers of incorrect payments. As a result of the improvements in internal control following the implementation of the iTrent system, the opinion on the control environment surrounding the Council's payroll system during 2021/22 was improved to "Adequate".

However, the Payroll Service has experienced operational issues, including the retention of staff, since the last review and progress made in improving the control environment during 2021/22 has not been maintained. This is disappointing and the issue has been included in the 2022/23 draft AGS.

The service has been only partially successful in making the improvements required.

In light of the above, the 2022/23 audit opinion is that the systems and controls in connection with the payroll administration are currently "Inadequate".

The Audit and Counter Fraud team will continue to work and liaise closely with the Payroll Team to monitor and report on further developments and performance going forward.

6.2 Adults' Services Financial Systems: Update

The Community Health and Adults' Social Care (CHASC) Team directly manages two of the Council's financial systems; the system for payments of Personal Budgets / Direct Payments and the Residential Care Payment system.

The Final 2021/22 Audit opinions for Residential Care Payments and Personal Budgets/Direct Payments were both assessed as "Inadequate". Whilst the service continues to allocate resources to resolving ongoing issues, it is a complex and time-consuming process, and the pandemic presented further challenges for Adult services in addition to addressing issues which existed pre-pandemic.

In respect of Residential and Nursing Care systems during 2022/23, it is noted that some progress has been made in addressing the recommendations made in the previous report. However, ten recommendations for improvements have been made, seven high priority, one medium priority and two low priority. Seven of the ten recommendations have been made in previous years' audit reports and remain outstanding. Six of these recommendations are high priority recommendations, and one is medium priority.

The service has received an audit opinion of 'Inadequate' since 2020/21. From the work on 2022/23 it was found that controls around the Residential and Nursing Care systems remain "Inadequate".

In respect of Direct Payments and Home Care systems during 2022/23, ten recommendations for improvements have been made, six high priority and four medium priority. Six of the ten recommendations have been made in previous audit reports and remain outstanding. Four of these recommendations are high priority recommendations, and two are medium priority.

The Service has received an audit opinion of 'Inadequate' in each of the eight years from 2014/15 to 2021/22. In light of the prolonged history of inadequate opinions in this area, and the repeated nature of a number of our recommendations, our overall opinion for 2022/23 has subsequently been downgraded to **Weak**.

Internal Audit will continue to engage with and support the service, monitor progress and report our findings to this Committee.

6.3 Debt recovery

The work in connection with the FFS reviews of Council Tax, Non-Domestic Rates and Accounts Receivable during 2021/22 highlighted a common theme of substantially increased levels of debt across all of these areas.

Debtors have increased over the last 5 years, although clearly the pandemic (when for a time debt collection was halted) and the current cost of living crisis has had an impact on collection since 2020.

This resulted in an “Inadequate” opinion in respect of the Council Tax FFS review for 2021/22, despite the controls around the balance of activity in this area being assessed as “Adequate”. Operational responsibility for the management of Council Tax and NDR transferred back to the Council from the Unity Partnership Limited with effect from 1 April 2022 and this has provided an opportunity for a greater focus on debt collection and improved practices. An appointment was made to a new post of Assistant Director (Revenues and Benefits) with the postholder starting work in January 2023 which will allow further development and improvement.

The recovery of other outstanding debt raised by the Council is undertaken by the Accounts Receivable Team (which also transferred back to the Council in April 2022 and is also under the management of the Assistant Director (Revenues and Benefits). This is a corporate team but is reliant on the support of debt raising services in its efforts to collect income due to the Council.

As debt recovery is corporate function (and a key role of the Finance team) the consolidated findings of the audit in connection with the Council’s debt are presented within the Accounts Receivable report for 2022/23, resulting in an “Inadequate” opinion in this area.

The Council has recognised this issue and is actively pursuing a number of initiatives for the reduction of outstanding debt and improvement of income collection processes. Going forward the performance in relation to debt collection and the improvement programme will be monitored.

6.4 Children’s Services

As noted above, the inaugural review of the systems and controls in connection with Children’s Services found controls in this area to be inadequate.

The main findings in this review are that whilst no instances have been identified where the Service is failing in meeting its objectives, it is not always recording either the inputs or outputs associated with its work in such a way as to allow complete and reliable management information to be produced.

This failure to maintain complete and accurate records presents a dual risk that:

- The management information available to service management is less reliable for the purposes of decision making and performance monitoring; and
- Failure to address inaccurate or incomplete records presents an additional risk that service users who are not receiving timely and appropriate care will not be identified.

The results of the review have been well received by the Service and there will be an assessment of progress against the recommendations made when the Service is revisited in 2023/24.

7. ICT and Information Governance

7.1 ICT

There was no planned internal audit activity undertaken in this area during 2021/22 due to the ongoing effects of the pandemic.

Internal Audit work in this area re-commenced during 2022/23 and Salford Computer Audit Service (part of Salford Council) were engaged to undertake specialist IT Audit Reviews of both IT Asset Management and Change Management systems and controls.

The reviews were conducted remotely and were well received by the Service. Action plans to address all recommendations made have been established and both reports received opinions equivalent to our own internal rating of "Adequate".

This specialist IT audit work will continue in 2023/24 with the following reviews planned for the year:

- Vulnerability Management;
- Cyber Security – National Cyber Security Centre Cyber Assessment Framework;
- Cloud Service Management.

The outcome of these reviews will be reported to the Audit Committee in due course.

In the meantime, cyber-criminals continue to present a risk, particularly around sending 'phishing' emails with the aim of getting users to click on a malicious link. In response to this risk the Council:

- Issues reminders to all employees and Members requesting completion of the Council's interactive Mandatory Cyber Security training course.
- Publishes cyber awareness guidance on the Council intranet.
- Has a policy on password complexity in alignment with the recommendations of the National Cyber Security Centre (NCSC).

The Council maintains its certification in line with the Public Services Network (PSN) Accreditation & Compliance standards. The PSN is a secure network that allows local and national public sector organisations to interact and share data privately and securely. On an annual basis the Council is required to obtain certification for the forthcoming year. The Information Management Team, working with ICT Services, manage the annual PSN certification submission. The current certification runs to the 25 March 2024.

The submission of the Council's Data Security and Protection (DSP) annual mandatory accreditation was made by the end of June 2022, with a partial submission, with one outstanding area – training. This was subsequently completed within the timescales agreed and a full submission presented. Work is in ongoing for the submission for 2023.

7.2 Information Management and Governance

The responsibility for Information Management and Governance rests with the Council's Director of Finance, under the remit of the Assistant Director of Corporate Governance and Strategic Financial Management. The terms of reference for the Audit Committee were updated to reflect this responsibility and approved by Council in May 2018.

The Audit Committee agendas regularly include Information Governance items, such as the Senior Information Risk Officer (SIRO) report, most recently presented to the 8 June 2023 Committee meeting.

In addition to the SIRO, the Council also has two Caldicott Guardians, one for Children's Services and one for Community Health & Adult Social Care. The Caldicott Guardian is a senior role in an organisation which processes health and social care personal data. The duty of the Guardian is to ensure that personal data is used legally, ethically and appropriately, and that confidentiality is maintained.

The Information Management Team has worked with both Caldicott Guardians to raise awareness, provide training, and issue key messages to staff. Furthermore, the Information Management Team and the Children's Caldicott Guardian have analysed trends across known incidents and issued specific guidance to staff on how to minimise the risk of information being disclosed in error or shared inappropriately due to redaction issues.

8. Procurement and Contracts

The Council's Procurement Policy focuses on ensuring the optimum balance between cost, quality and local service value, whilst also ensuring that any significant commercial risks are identified and mitigated during the commissioning stage.

The Procurement Policy seeks to ensure value for money and social value outputs are measured in an integrated way, in order to support the Council's co-operative agenda. In this way, the Council secures the greatest social, economic and environmental benefit from the Council's purchasing power.

The Council has a procurement team to assist in ensuring that all legal and regulatory requirements are adhered to when procuring goods and services. The separation of this independent function from the procuring departments provides both additional segregation and oversight controls across the Council's procurement activity.

The Council operates a multi-disciplinary Gateway Review process for capital projects involving senior officers from across a range of services including Procurement, Regeneration, Finance and Legal Services. The Assistant Director of Corporate Governance and Strategic Financial Management is also engaged in Gateway Reviews in respect of commentary on project related risk. This process provides additional robust challenge of capital programme proposals, and broad based consideration of project risk from differing professional perspectives.

Internal Audit has reviewed the pre-construction phases of the following capital contracts which were ongoing during 2022/23;

- North Chadderton High School Extension pre-contract procurement;
- Alexandra Park Eco Centre;
- Diggle Clock Tower pre-contract procurement;
- Old Museum / Library pre-contract procurement; Egyptian Room pre-contract procurement.

The opinion on these procurements is that systems and processes were "Adequate" and, in the case of North Chadderton School extension, they were assessed as "Good".

However, despite adherence to Contract Procedure Rules in procuring these projects, and utilising a variety of routes to market, some common observations were made across these various procurements, including:

- Progressing to contract award was, in a number of cases, hampered by the impact of the pandemic;
- Generating sufficient contractor interest to demonstrate competition was difficult in some cases, and this was exacerbated by the heritage nature of some projects, and time restrictions on external sources of funding;

- Cost increases and time delays during construction were common, partly due to building price inflation, but also in some instances due to incomplete scoping of the works, again influenced by external funding restrictions;
- Relations with contractors were, on occasion, somewhat adversarial.

Contract Procedures Rules are currently under review to ensure that the Council is able to maximise its procurement options with appropriate safeguards in place.

9. Business Grants Assurance

From August 2021 until December 2022, the Department for Business, Energy and Industrial Strategy (BEIS) required the Section 151 Officer (Director of Finance) to provide evidence to support sampled payments on a range of COVID-19 related Business Grants. Evidence provided provides assurance that the chosen grant payments were delivered in line with Oldham Council's Counter Fraud Policy, and the terms of the BEIS COVID-19 Business Grants Scheme conditions.

In December 2022, the Department confirmed that it had completed the process of requesting assurance samples and thanked colleagues for their cooperation with the Pre and Post Payment Assurance (PPAS) process for COVID-19 Business Support Grants Schemes.

From the data submitted up to December 2022, the Department for Business and Trade (that now has taken over responsibility for some of the activities formerly undertaken by BEIS) and the National Audit Office (NAO) are now conducting PPAS checks. Work continues in this area and as recently as 12 June 2023 the Council received further communications from the Department for Business and Trade in connection with Local Restrictions Support Grant funding (one of the Business Grant funding streams).

The NAO and Public Accounts Committee will work towards concluding the COVID-19 Business Support Grants programme in 2023.

10. Grant Assurance Reviews

Over the period of the pandemic, requests for grant assurance reviews from the Greater Manchester Combined Authority (GMCA), and Central Government funding departments significantly reduced.

These assurance requests are now being received again and will form part of the on-going, regular assurance work undertaken in respect of a variety of GMCA and direct Central Government grant awards. The Audit team also carry work around European Union (EU) funded grant schemes, a number of which relate to low carbon initiatives, which support the delivery of the Council's Corporate Plan and Green New Deal.

There is an expectation that further requests for this type of assurance work will continue. Each piece of assurance work requires verification of significant expenditure and, as such, each represents a small, targeted audit in itself.

11. Corporate Counter Fraud and Investigations

The Corporate Counter Fraud Team has continued to perform well during 2022/23 and has worked in collaboration with Internal Audit colleagues where appropriate.

The tables below set out the key outcomes; with comparative data year on year data shown in Appendix 2:

Corporate Counter Fraud Team Results

Performance Indicator/Output Measure	2022/23
Counter Fraud Team:	
Corporate Cases - Positive Results	114
Fraud & Error Overpayments (Corporate Cases)	£153,096
Council Tax Reduction (CTR) cases amended after investigation	62
Housing Benefit (HB) Fraud & Error Overpayments identified after CTR investigation	£95,016
CTR Fraud & Error Overpayments identified	£63,948
Total Financial Outcomes from Counter Fraud Team	£312,060

Team members also attend the North-West Heads of Audit Counter Fraud Sub-Group to share knowledge and best practice around emerging risks and mitigations.

12 Audit of Direct Payments (DP)

The Direct Payments (DP) Audit team conducts audit reviews to verify whether clients with a Direct Payment have spent their funding in accordance with the agreed Support Plan, and that client contributions associated to their care have been collected.

The DP team has a dual role as a compensating control, tasked with the responsibility to recover over-payments/unrecovered client contributions and also to ensure the client is spending the funds advanced in accordance with the agreed Support Plan.

Adults and Children's Direct Payments Audit Team Results

Performance Indicator/Output Measure	2022/23
Direct Payment Audit Team:	
Number of Children's DP audits undertaken	252
Funds requested during Children's DP Audits	£188,976
Number of Adults' DP audits undertaken	1,231
Funds requested during Adults' DP Audits	£2,865,466
Total Financial Outcomes from Direct Payment Audit Team	£3,054,442

In order to further assist the Adult Social Care Service, Direct Payment (DP) Auditors now also invoice for DP overpayments as soon as the DP audit is concluded.

This commenced in January 2023 and had the immediate impact on reducing the time taken to raise an invoice from approximately 65 days to approximately 1.5 days, with consequent reductions in outstanding unused DP balances in client accounts. Average days to recover unspent funds is now 5 days following the raising of the invoice.

13 Other Activities

The Assistant Director of Corporate Governance and Strategic Financial Management, the Head of Audit and Counter Fraud, and the Audit and Counter Fraud team also provided support for the following:

- Council;
- The Audit Committee;
- MioCare’s Finance, Audit and Risk Committee;
- Information Governance Board.

14. Internal Audit and Counter Fraud Performance

Internal Audit and Counter Fraud performance is self-assessed annually in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN).

The PSIAS also require an external assessment of compliance against the standards every 5 years. Oldham’s first external assessment was conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA) during 2017/18, and the second, and latest, review has recently been conducted in March 2023, again by CIPFA.

There are three overall opinions available to the assessor. These are that the Service either:

- Generally Conforms to the Standard;
- Partially Conforms to the Standard; or,
- Does not Conform to the Standard.

The overall opinion of the latest external assessment of the Internal Audit Service at Oldham, by CIPFA, is reproduced below:

It is our opinion that the self-assessment for Oldham Metropolitan Borough Council’s Internal Audit Service is accurate, and we therefore conclude that the Internal Audit Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

In addition, the assessor also provides an opinion of the level of conformance with the PSIAS and LGAN in each of the areas assessed. The table below shows the Internal Audit Service’s level of conformance to the individual standards as assessed during this most recent external quality assessment:

Standard / Area Assessed	Level of Conformance
Mission Statement	Generally Conforms
Core principles	Generally Conforms
Code of ethics	Generally Conforms
Attribute standard 1000 – Purpose, Authority and Responsibility	Generally Conforms
Attribute standard 1100 – Independence and Objectivity	Generally Conforms
Attribute standard 1200 – Proficiency and Due Professional Care	Generally Conforms

Standard / Area Assessed	Level of Conformance
Attribute standard 1300 – Quality Assurance and Improvement Programmes	Generally Conforms
Performance standard 2000 – Managing the Internal Audit Activity	Generally Conforms
Performance standard 2100 – Nature of Work	Generally Conforms
Performance standard 2200 – Engagement Planning	Generally Conforms
Performance standard 2300 – Performing the Engagement	Generally Conforms
Performance standard 2400 – Communicating Results	Generally Conforms
Performance standard 2500 – Monitoring Progress	Generally Conforms
Performance standard 2600 – Communicating the Acceptance of Risk	Generally Conforms

The assessor goes on to say that there are no areas where Oldham’s Audit Service partially conforms with the standard, and no areas where the Audit Service does not conform with the standard.

A more extensive analysis of the outcomes of the external assessment is included as a separate report on this agenda. However, as confirmed by this latest external assessment, Oldham’s Audit and Counter Fraud Service is provided in full conformance with the requirements of both the PSIAS and LGAN.

Summary of Internal Audit and Counter Fraud Performance

The Head of Audit and Counter Fraud continues to streamline the audit planning and reporting processes. In summary, during 2022/23;

- 62 Audit reviews/reports/outputs have been completed, including those previously reported in the Internal Audit Update report to this Committee on 8 June 2023, with the addition of the two IT Audit reports completed by Salford Computer Audit Service. The equivalent figure for 2021/22 was 41 reviews/reports/outputs completed;
- The 2022/23 FFS reviews were again completed in accordance with a strict timeline to support the year end assurance process;
- Ongoing development of the Pentana Audit Management System was maintained;
- Customer feedback obtained for 2022/23, including the outcomes of both questionnaires and interviews held as part of CIPFA’s External PSIAS Assessment, indicate that the team is well regarded and provides a professional service;
- Significant joint working continued between the Internal Audit and the Counter Fraud teams to capture process and control improvements required to improve internal control and minimise fraud; and
- As part of 2023/24 developments, it is planned to deliver further staff training in a range of governance and technical areas.

15. 2022/23 Audit and Counter Fraud Performance Targets

In 2022/23, Internal Audit continued to work with the Council's External Auditors and senior managers to maintain and further develop its quality of service by delivering the agreed performance targets as shown in the table below:

2022/23 Performance Target	Outcome
Completion of the annual FFS reviews identified through the audit needs assessment in support of the S151 Officer and the timely delivery of the Council's annual financial statements.	Complete. See summary of FFS review outcomes at Section 6, Table 1 in this report.
Undertaking risk-based audit reviews across the Authority in line with areas highlighted by the Council's risk management processes, the AGS, Corporate and Recovery plans, upcoming developments/horizon scanning and liaison with Senior Officers.	Complete. See summary of work completed and ongoing as reported in the regular Internal Audit Progress Reports to this Committee, most recently on 8 th June 2023, and included in this Annual Opinion Report to the Audit Committee.
The development of the new Audit Management System in order to ensure reviews are carried out efficiently and properly recorded.	Ongoing. Further planned developments include utilisation of the system's planning functionality and development of a system generated recommendation tracker reporting function.
Reviewing organisational risks and priorities with the Director of Finance and senior managers within Directorates.	Complete Annual Audit Planning meetings for 2023/24 planning cycle were held with: <ul style="list-style-type: none"> • Assistant Chief Executive • Executive Director Place and Economic Growth • Director of Finance • Director of Legal Services • Director of Adult Social Services • Acting Director of Children's Social Services • Director of Economy • Director of Education Skills and Early Years • MioCare - Associate Director Quality, Performance and Compliance
Implementing further improvements in the process to capture customer service feedback through the new Audit Management System.	Ongoing Issuing of customer feedback questionnaire's has been re-launched. However, responses to date have been limited.

	<p>Actions to take forward to 2023/24:</p> <ul style="list-style-type: none"> • Undertake further awareness raising and promotion among senior officers. • Add to the agenda items to cover in close out meetings with clients. • Review style and content of feedback form.
<p>Further staff development and training in areas beyond fundamental systems reviews.</p>	<p>Complete.</p> <p>Audit staff have undertaken a wide variety of training course during 2023/24, and the section also has one Chartered Institute of Public Finance and Accountancy Apprentice and one Institute of Internal Auditors Apprentice undertaking Level 7 and Level 4 qualifications respectively.</p>
<p>Continued close liaison with the Counter Fraud team to improve internal control around, and minimise, fraud.</p>	<p>Complete.</p> <p>The Counter Fraud team continues to support the work of the Internal Audit Team where required.</p> <p>The Fighting Fraud and Corruption Locally (FFCL) 2020 – 2025 checklist and subsequent Action Plan reported to the Audit Committee on 29th November 2022 identified areas for further audit review work with an anti-fraud and corruption focus including a Standards Review and a Recruitment Processes Review, both of which are planned for 2023/24.</p>
<p>Provide Internal Control and Counter Fraud training as required to staff across the Council.</p>	<p>Complete.</p> <p>The Internal Audit and Counter Fraud team continues to provide advice, guidance and training as required in all areas examined. Audit recommendations and guidance are issued in all audit reports as required, and both Audit and Counter Fraud staff have, and continue to be, active in providing advice and guidance in respect of emerging requirements and proposed system changes.</p> <p>The Fighting Fraud and Corruption Locally (FFCL) 2020 – 2025 checklist and subsequent Action Plan reported to the Audit Committee on 29th November 2022 identified areas for potential improvements to Council wide communications on anti-fraud and corruption policies, guidance and training. This will be further developed during 2023/24.</p>

Given that the above performance targets remain relevant in the current year, 2023/24, and there are some action points outstanding, these targets will be rolled forward into 2023/24.

Performance targets will be re-assessed each year to ensure they remain relevant to the both the work of the Service, and to the needs of the Council as a whole.

16 Conclusion

Having undertaken all necessary work and in accordance with all Codes of Practice and guidance, the overall opinion of Oldham Council's HIA is that the overall system of Internal Control in Oldham Council as at 31 March 2023 is Adequate. This provides relevant assurance to Statutory Officers and Members that the systems and controls in place that assist the Directorates in meeting their objectives.

Appendix 2

Counter Fraud Team Comparative Performance Data 2020/21 to 2022/23

Output Measure	Outcome		
	2020/21	2021/22	2022/23
Counter Fraud Team:			
Corporate Cases - Positive Results	130	114	114
CTR cases amended as a result of an investigation	117	74	62
Fraud & Error Overpayments identified as part of Corporate Cases (£)	£62,589	£78,052	£153,096
HB Fraud & Error Overpayments identified as part of a CTR investigation (£)	£74,151	£210,978	£95,016
CTR Fraud & Error Overpayments identified (£)	£108,073	£119,448	£63,948
Total Financial Outcomes from Counter Fraud	£244,813	£408,478	£312,060
Direct Payment Audit Team:			
Number of DP audits undertaken (Children)	184	175	252
Number of DP audits undertaken (Adults)	941	1,062	1,231
Funds requested during Children's PB Audits including Financial Assessment (£)	£131,910	£148,189	£188,976
Funds requested during Adults' PB Audits including Financial Assessment (£)	£2,029,164	£2,829,840	£2,865,466
Total Financial Outcomes from Personal Budget Audit Teams	£2,161,074	£2,978,029	£3,054,442
Total Financial Outcomes from Counter Fraud and Personal Budget Audit Teams	£2,405,887	£3,386,507	£3,366,502