



APPENDIX 1

Annual Head of Internal Audit Opinion 2023/24

Draft Issued: **28th August 2024**

Final Report Issued: **30th August 2024**

1. Introduction

- 1.1 The PSIAS (Public Sector Internal Audit Standards)¹ require the Chief Audit Executive to provide an annual opinion on the effectiveness of the governance, risk management and internal control framework, as supported by sufficient, reliable, relevant and useful information.
- 1.2 For Cumberland Council the Chief Audit Executive is the HIARM (Head of Internal Audit & Risk Management).
- 1.3 This report gives the HIARM's overall opinion on the effectiveness of the governance, risk management and internal control framework in place at Cumberland Council for the year ending 31 March 2024.
- 1.4 This report is a key contributor to the Council's Annual Governance Statement.
- 1.5 This is the first annual HIARM opinion issued for Cumberland Council, which was formed through a Local Government Reorganisation on 1st April 2023.

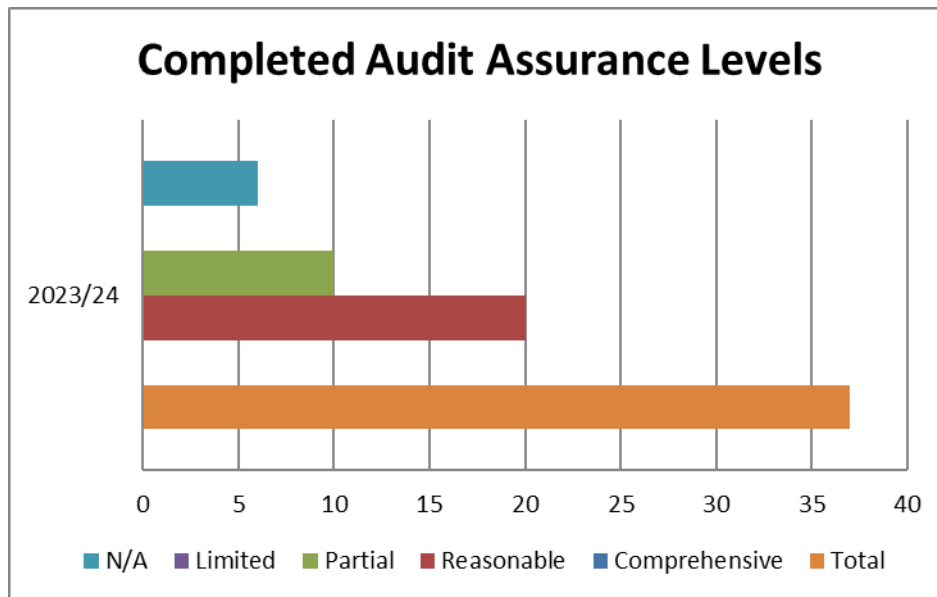
2. Scope of the Opinion including reliance on other assurance providers

- 2.1 The opinion is based on the work undertaken by Internal Audit during the year, as previously reported to the Audit Committee (including assignments in the 2023/24 plan that were finalised after 31st March 2024). The opinion also considers the work of other assurance providers, as specified in paragraph 2.6.
- 2.2 The original internal audit plan approved at the 20th June 2023 Audit Committee included 1704 audit days and 48 audit assignments. It was recognised this plan could not be achieved due to long-term vacancies and long-term absence in the Internal Audit team, resulting in a revised plan of 1549 audit days and 47² assignments being approved at the 6th December 2023 Audit Committee.
- 2.3 Internal Audit has completed 37 reviews (79%), which are summarised at **Appendix A**. It should be noted that two audits were suspended; the outcomes of work undertaken prior to suspension has been considered as part of the overall opinion, hence them remaining within scope.
- 2.4 The overall assurance rating for each assignment is summarised below³:

¹ Standard 2450 – Overall Opinion

² The number of assignments has remained relatively constant as the original plan included various contingencies that were removed.

³ 6 reviews did not attract an assurance rating as they were either advisory in nature, or did not result in an audit report.



2.5 The following additional work was also undertaken by Internal Audit, which was considered as part of the overall opinion:

- Completion of four grant certifications for externally funded projects.
- Routine follow-up of outstanding internal audit recommendations (including legacy recommendations).
- Formal advisory work undertaken in relation to Building Control (no report).
- Ad-hoc advisory work undertaken as requested, summarised in **Appendix B**.
- Work undertaken by the Risk Manager where relevant.
- Undertaking four investigations into allegations of fraud / misuse of Council assets.

2.6 The Council has also received assurance from other providers during 2023/24; the following assurances have been considered as part of the overall opinion:

- Public Sector Network ICT Health Checks for all Legacy Authorities.
- Gold Standard award for Bereavement Services from Institute of Cemetery & Crematorium Management.
- Stock & Security Assessment for Registration Service undertaken by the General Register Office.
- External Assurance Review of Financial sustainability undertaken by CIPFA.
- Attendance at monthly Legal Senior Management Team meetings, feedback/attendance from Senior Leadership Team meetings, management briefings, regular staff briefings and corporate communications.
- Regular summary reviews of key Council meetings.
- Work undertaken by External Audit during 2023/24⁴

2.7 Internal Audit are currently developing a wider assurance strategy for audit work undertaken in 2024/25.

⁴ This is based on progress reports provided to Audit Committee during 2023/24 and does not include the annual opinion on the final accounts or the value for money review, as these had not been issued as at time of providing this overall opinion.

- 2.8 The outcome of the audit key performance indicators for 2023/24 are detailed at **Appendix C**.
- 2.9 Completing audits within allocated resource and completion of fieldwork on a timely basis has been difficult to achieve during 2023/24 due to the complexities created through LGR, meaning more time has been required to undertake audits (for example the audit of Payroll required a review of four separate systems), as well as clients needing longer to provide information and meet with Internal Audit to discuss reviews.
- 2.10 Vacancies and long-term absences have also impacted the service, but additional temporary resource was obtained during the year to enable delivery of the Internal audit plan.
- 2.11 It has not been possible to calculate the number of audit recommendations implemented first time as more work is required to ensure the relevant data is recorded.

3. Scope Limitations of the Opinion

- 3.1 In giving this opinion, it should be noted that assurance can never be absolute. The HIARM is satisfied sufficient internal audit work (as outlined in section 2) has been undertaken to allow a conclusion on the adequacy and effectiveness of risk management, governance and internal control for Cumberland Council.
- 3.2 Audit coverage has focused on key strategic risks and priorities for the Council.
- 3.3 The HIARM can confirm that in making this opinion they have considered the following limitation in scope:
- 3.4 Operational responsibility for Risk Management and Fraud rests with management, Internal Audit and Risk Management have administrative responsibility for maintaining and delivering Cumberland's Risk Management Framework and Counter Fraud and Confidential reporting policies. The Audit Charter specifies the controls in place to maintain the independence required to enable objective assurance and the HIARM can confirm these controls have been maintained. However, opinions provided in relation in both these areas includes an element of self-assessment (rather than fully independent assurance).
- 3.5 Further independent assurance over the operation of Risk Management and Counter-Fraud is anticipated to be included in the External Auditor's annual value for money opinion.

4. Overall Assurance Opinion

- 4.1 Internal Audit has maintained its independence during the year and all work has been delivered in accordance with the Standards, as confirmed by a self-assessment of conformance with the PSIAS. An External Quality Assessment is scheduled for 2024/25.
- 4.2 The assurance opinion is intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 5 levels of assurance opinion which may be applied (See Appendix D for definitions).
- 4.3 The HIARM considers the current assurance opinion to provide **partial assurance**.
- 4.4 Cumberland Council is a new authority, having formed from merging four existing authorities, one of which is also being disaggregated.
- 4.5 Internal Audit recognise the considerable efforts taken to develop governance, risk management and internal control frameworks within Cumberland; however, the relevant infancy of the Council and the complexities involved with the merger means, by definition, the frameworks are relatively immature and require further development.

5. Summary of Improvement Areas

- 5.1 Below is a summary of the key issues that Cumberland Council should prioritise in relation to improving governance, risk management and internal control frameworks during 2024/25 and beyond, is based on a combination of key and common findings from the 2023/24 Internal Audit plan, alongside key findings from other assurance providers.

Governance

- 5.2 The Council has an approved constitution in place with a formal calendar of constitutional meetings, including terms of reference for key committees. This is supported by a similar meeting structure for officers to enable suitable reporting and monitoring of performance.
- 5.3 Further work is required to understand the Council's adherence to the good governance principles, including any further areas for improvement, which in turn would contribute towards both the Code of Corporate Governance and Annual Governance Statement.
- 5.4 Out of necessity, the Council is operating several temporary structures as the merging of the four legacy councils continues. Internal Audit recognise this is a lengthy process, but the need to formally develop plans with agreed timelines for harmonising and restructuring Council services. was a key common recommendation during the year.
- 5.5 Limited resources available to deliver services has been a regular contributor to adverse assurance opinions and the Council needs to continue to obtain resource to deliver key services, while ensuring adherence to budgetary constraints.
- 5.6 Reporting of both financial and non-financial performance data has improved during the year, but further enhancements are required to ensure reporting of comprehensive, complete and timely information.
- 5.7 As identified in the Internal Audit of Culture, limited progress in harmonising council services has a significant impact on embedding the Cumberland visions and values across the new organisation. This has been recognised by Senior Management as a key priority for 2024/25.
- 5.8 Further work is also required to transform and harmonise all elements of the organisation's cultural make-up, including structures and staff (see above), a comprehensive strategic approach through ongoing development of the strategic framework and establishing consistency in the use of tangible assets that enable service delivery (such as buildings and systems).

Risk Management

- 5.9 The Council has embedded a Risk Management Framework and Strategic Risk Register that captures key risks for the organisation. The register is regularly reviewed and reported to senior management and the Audit Committee, though improvements to the register content have been suggested when reviewed.
- 5.10 Internal Audit also identified creation and completion of Operational Risk Registers is significantly less developed, with most services reviewed found to either have no risk register, or adopting legacy Operational Risk Registers, which do not reflect Cumberland priorities.

Internal Controls

Financial Sustainability

- 5.11 Financial Sustainability is a priority risk for the organisation, with significant financial pressures identified as part of initial medium term financial planning and rising demand for several key services. This has been mitigated by the Council through an application for exceptional financial support and delivery of a transformation programme to realise further long-term efficiency savings.
- 5.12 The application for exceptional financial support resulted in an external assurance review, which specifies key improvement areas for the authority. Internal Audit support these improvements, which should be a priority for the Council. Internal Audit have also identified further work is required to quantify, report and monitor the achievement of efficiency savings.

Accounting systems / completion of accounts

- 5.13 The complexity of merging four separate sets of main financial systems has been extremely challenging and there have been five partial assurance reviews during the year (Creditors/Debtors/Main Accounting System/Bank Reconciliation/Purchase Cards). It was also not possible to undertake an audit of income due to delays in posting income to the Council's ledger.
- 5.14 There are significant challenges in completing accounts for legacy councils, particularly for Copeland Council, as their accounts are currently outstanding from 2019/20, impacting on brought forward balances for the Council's 2023/24 accounts. Resources within Financial Services were initially limited, but recent successful recruitment campaigns has improved capacity.
- 5.15 These challenges significantly impact the Council's ability to prepare timely, auditable accounts in time for statutory deadlines, so are at significant risk of account qualification.

ICT Harmonisation

- 5.16 There is a risk to efficient delivery of Council services due to ICT facilities currently provided across the four legacy networks.
- 5.17 The harmonisation of ICT systems and processes is recognised as an ongoing priority, but is clearly a significant undertaking, which will take years to resolve. A strategic risk is under development in relation to this risk area, which will enable the Council to clearly document how it intends to mitigate against this key risk.

Cyber-Security

- 5.14 Cyber Security is the highest scoring strategic risk for the authority. While Internal Audit were able to provide reasonable assurances that suitable controls are in place, the potential likelihood and severity of a cyber-attack means addressing the audit recommendations remains a priority for the Council, including ensuring all staff have sufficient awareness to detect and avoid attempted attacks on the Council's network.

Fraud

- 5.15 There is an increased risk of fraud within the organisation, particularly as control frameworks are being developed and harmonised. A number of control weaknesses were identified during the year, particularly in relation to controls in place to control procurement card expenditure. It is recognised significant work has since been undertaken to address these risks and a follow-up is scheduled for 2024/25 to review progress.
- 5.16 The risk of fraud is also increasing due to external circumstances (ongoing economic recession), so focus on tightening controls should continue during 2024/25, including developing awareness of the Council's confidential reporting policy (though it is acknowledged there has been a positive response to the policy following its introduction in September 2024)

Appendix A – Summary of Reviews Undertaken

Category	Audit Assignment	Status (AC)	Assurance Rating
Corporate Audit Reviews	Hosted Services	Final (Dec 23)	Partial
	Culture	Final (July 24)	Partial
Strategy, Policy & Performance	Performance Management	Final (Oct 23)	Reasonable
Business Transformation & Change	Cyber-Controls	Final (Oct 23)	Reasonable
	Controcc	Final (Oct 23)	Substantial
Resources Audit Reviews	Information Governance & Records Management	Final (Jan 24)	Reasonable
	Building and Staff Security	Final (Jan 24)	Partial
Public Health & Communities Audit Reviews	Substance Misuse Contract	Final (May 24)	Partial
	Environmental Health (Black Mould)	Final (Oct 23)	Reasonable
	Community Grants (Governance)	Final (Oct 23)	Reasonable
Place, Sustainable Growth & Transport Audit Reviews	Waste Disposal Contract	Final (Oct 23)	Reasonable
Adult Social Care & Housing Reviews	CQC Readiness Phase 1	Final (Aug 23)	N/A
	Data Quality	Final (July 24)	Reasonable
	Liquid Logic Disaggregation (Joint with Children's)	Final (Dec 23)	Reasonable
	S117 Arrangements	Suspended	N/A
	Deprivation of Liberty Safeguards	Final (May 24)	Partial
	DFG	Final (Feb 24)	Reasonable
	CQC Readiness Phase 2	Final (July 24)	Reasonable

Category	Audit Assignment	Status (AC)	Assurance Rating
Children and Family Well-Being	St James, Millom (School)	Final (Oct 23)	Reasonable
	Mayfield (School)	Final (Oct 23)	Reasonable
	Newman Secondary (School)	Final (Feb 24)	Reasonable
	SEN Transport (VFM)	Final (July 24)	Reasonable
	External Homes	Final (Sep 24)	Reasonable
	Liquid Logic Disaggregation (Joint with Adults)	Final (Dec 23)	Reasonable
Main Financial Systems Audit Reviews	BACS Payments	Final (Aug 23)	N/A
	Financial Regulations	Final (Mar 24)	N/A
	Financial Services Governance	Final (July 24)	Reasonable
	Financial Sustainability	Final (Sep 24)	Reasonable
	Bank Reconciliation & Scheme of Delegation	Final (Dec 23)	Partial
	Main Accounting System	Final (Sep 24)	Partial
	Debtors (Purchase to Pay)	Final (May 24)	Partial
	Creditors	Final (May 24)	Partial
	Income	Suspended (Dec 23)	N/A
	Treasury Management	Final (July 24)	Reasonable
	Payroll	Final (May 24)	Reasonable
	Purchase Cards	Final (Mar 24)	Partial
Counter Fraud	Policy	Final (Jun 23)	N/A

Appendix B – Summary of Ad-Hoc Advice

Service	Summary of advice provided
Human Resources	Review data-sharing arrangements with Westmorland & Furness
Legal Services	Review of Information Governance arrangements
ICT (Security)	Review data-sharing arrangements for service request originating outside of European Union
Registration	Advice around compliance with External Stock and Security Assurance Review
Financial Services	Advice in relation to declaring gifts and hospitality.
Financial Services	Review use of payment system
Policy	Review proposals in relation to Service Planning
ICT (Security)	Ongoing review of PCI-DSS compliance
ICT (Security)	Advice in relation to strengthening controls in response to increase in spear phishing incidents
School	Advice in relation to conflict of interests and use of procurement cards
School	Ad-hoc financial management advice to School Bursar
Museums	Review of safe-guarding processes

Appendix C – Key Performance Indicators

Indicator	Target	Actual
Planned Audits Completed	80%	79%
Timely draft reports (within 3 months of fieldwork starting)	80%	40%
Timely final reports (within 8 days of client response)	90%	93%
Recommendations Agreed	95%	100%
Assignments completed within 10% of allocated resource	70%	47%
Recommendations implemented first time	60%	N/K

Appendix D - Audit Assurance Opinions

There are five levels of assurance used; these are defined as follows:

	Definition:	Rating Reason:
Comprehensive	<p>There is a robust system of internal control designed to achieve service objectives.</p> <p>Risk Management processes are thorough.</p>	The control framework is suitable, complete and consistently applied.
Substantial	<p>There is a sound system of internal control designed to achieve service objectives.</p> <p>Risk Management processes are advanced.</p>	The control framework is suitable, complete and consistently applied.
Reasonable	<p>There is a satisfactory system of internal control, helping to ensure that service objectives are generally achieved. Some issues have been raised that may increase risk exposure.</p> <p>Risk management processes require some improvements.</p>	The control framework is adequate. Some controls are ineffectively applied and/or insufficiently embedded.
Partial	<p>There is an insufficient system of internal control, reducing the likelihood that service objectives will be achieved. Some areas are satisfactory but a number of weaknesses have been identified.</p> <p>Risk management processes are weak.</p>	The control framework is ineffective and/or inconsistently applied. A significant level of error has been identified.
Limited/ None	<p>Fundamental internal control weaknesses have been identified exposing system objectives to an unacceptable level of risk.</p> <p>Risk management is ineffective.</p>	Significant non-existence or non-compliance with basic internal controls, exposing the system to error and/or abuse.