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| Audit Assurance Opinion | Effective | Evaluated controls are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are being met. |
| | Reasonable | Some specific control weaknesses were noted and some improvement is needed; evaluated controls are generally adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met. |
| | Limited | Evaluated controls are unlikely to provide reasonable assurance that risks are being managed and objectives should be met. |
| | Ineffective | Evaluated controls are not adequate, appropriate, or effective. Internal Audit cannot provide reasonable assurance that risks are being managed. |

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| Distribution List | Accountable Officers: (Draft and Final) | Chief Finance Officer & Section 151 Officer, L Rogers Deputy Chief Finance Officer, M Hone Finance Planning Manager, D Bastos |
| | For Information: (Final) | Chief Executive, C Bally Strategic Directors, K Blakemore, A Jarvis, N Khan Cabinet Member with responsibility for Resources, Cllr V Langdon-Morris Audit and Governance Committee Ernst & Young (External Auditor), M Russell |

Adequacy of Individual Control Areas

| Audit Scope by Control Area | Findings with a Potential Corporate Risk Level of: | | | Control Adequacy |
|-----------------------------|--|--------|-----|------------------|
| | High | Medium | Low | |
| Procedures and Guidance | 0 | 0 | 0 | Effective |
| Budget Setting | 0 | 0 | 0 | Effective |
| Budget Monitoring | 0 | 0 | 0 | Effective |
| Virements | 0 | 0 | 1 | Reasonable |
| OVERALL | | | | Effective |

1. Executive Summary

- 1.1 The objective of the audit was to ensure that the Council sets and manages its general fund revenue budgets so that income balances to expenditure and the Council meets its corporate objectives and financial sustainability.
- 1.2 The overall assurance of **Effective** has been made on the basis of the control framework in place and supporting risk management. Although one control area shown above has a lower levels of assurance, the audit opinion gives greater weighting to controls that mitigate more serious levels of risk.
- 1.3 One low risk finding has been raised in relation to virements to improve clarity on their identification and reporting; Internal Audit was unable to obtain a report to readily identify the movement of approved budget between budget headings, and therefore the correct application of the approval process for virements has not been tested in this review.

ACTION PLAN FOR SERVICE AND OPERATIONAL RISKS

All identified control weaknesses have been risk assessed, with potential High and Medium corporate risks reported in the Actions Relevant to Potential Corporate Risks above. The following action plan sets out control improvements relevant to the service area where the internal audit assessment using the corporate risk toolkit has concluded the potential corporate risk is Low. The definition of each priority level is given in the Council’s Audit Framework.

| VIREMENTS | | | | | |
|-----------|---|---|---|----------|--|
| REC No. | FINDING | RISKS AND IMPLICATIONS | AGREED ACTION | PRIORITY | MANAGEMENT ACTION |
| 1 | <p>A report of virements was requested from finance to enable verification of virement authorisation. However, it was found in those virements sampled were re-profiling of budget rather than actual virements.</p> <p>Virements are difficult to identify in the financial accounting system and are not differentiated from other types of adjustment.</p> <p>It is understood that the Finance Team have a new procedure planned to ensure that each budget change type, including virements, is uniquely marked in Business Central at point of entry.</p> | <p>Lack of clarity on identifying and reporting Virements which may make it difficult to independently review them after they have been processed.</p> <p>Erroneous or fraudulent transactions may go undetected, leading to errors in the accounts and an impact on budget management.</p> | <p>The team has now set up unique codes to specify each budget change time. Our initial commitment is to post the initial batch of 23/24 budget changes on business central using the new unique references by the end of May 2023. We will then run reports to assess the effectiveness of the approach.</p> <p>Once successful, we will roll out to the end of Q2 and provide an update report to the internal audit team in August 2023, confirming the completion of agreed action.</p> | 2 | <p>Responsibility: Deputy Chief Finance Officer</p> <p>Target Date: 30 August 2023</p> |

PROCEDURES AND GUIDANCE

| REC No. | FINDING | RISKS AND IMPLICATIONS | AGREED ACTION | PRIORITY | MANAGEMENT ACTION |
|--|---------|------------------------|---------------|----------|-------------------|
| No service-level reportable findings relevant to this Control Area were identified | | | | | |

BUDGET SETTING

| REC No. | FINDING | RISKS AND IMPLICATIONS | AGREED ACTION | PRIORITY | MANAGEMENT ACTION |
|--|---------|------------------------|---------------|----------|-------------------|
| No service-level reportable findings relevant to this Control Area were identified | | | | | |

BUDGET MONITORING

| REC No. | FINDING | RISKS AND IMPLICATIONS | AGREED ACTION | PRIORITY | MANAGEMENT ACTION |
|--|---------|------------------------|---------------|----------|-------------------|
| No service-level reportable findings relevant to this Control Area were identified | | | | | |

2. Supporting Details

2.1 Links to Council Service Delivery

This review considered achievement of the organisations strategic objectives and risks, specifically this audit contributes towards:

- Business Objective - To ensure that the Council sets and manages its general fund revenue budgets so that income balances to expenditure and the Council meets its corporate objectives and financial sustainability.
- East Suffolk Business Plan – 1. Growing our Economy 2. Remaining Financially Sustainable
- Corporate Risk Register – Failure to produce and deliver sustainable Medium Term Financial Strategy (MTFS) including delivery of balanced Annual Budget due to uncertainty over Government funding

2.2 Scope of Internal Audit Activity

The following control areas were assessed:

- Procedures and guidance
- Budget setting
- Budget monitoring
- Virements

The period under review was from April 2022 to 31 January 2023.

Internal Audit seeks to enhance and protect organisational value by providing risk based and objective assurance. Internal Audit assurance is a professional service focusing on functions, processes and controls. It does not replace professional advice from other key services such as the financial or legal functions. The work performed by Internal Audit provides an opportunity to make significant improvements to governance arrangements, risk management and control processes.

This audit has been undertaken as part of the Annual Audit Plan 2022/23, approved by the East Suffolk Council Audit and Governance Committee on 14 March 2022.

This audit has been conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, and the UK's current Public Sector Internal Audit Standards.

2.3 Definitions of Risk and Control

This audit uses the definition of Risk set out in the Council's Risk Management Strategy.

The definition of Control is taken from the Chartered Institute of Internal Audit:

“Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.”

In addition to a risk assessment using the corporate risk matrix, each agreed action is allocated a priority level for use within the service area. The allocation of each priority level is based on:

| | |
|-------------------|---|
| Priority 1 | Findings indicate a significant control weakness that could mean objectives fundamental to the operation of the service may not be met. Urgent attention is required from strategic management. |
| Priority 2 | Findings indicate an important control weakness could mean that objectives central to the operation of the service may not be met. Prompt management attention is required. |
| Priority 3 | Findings indicate a control weakness that could mean service objectives may not be met. Management attention is required. |
| Priority 4 | Findings indicate a minor control weakness that, although not essential to an effective control framework, would benefit from low-cost improvements. Any Priority 4 issues identified during the course of this audit have been reported to the relevant Service team prior to the issue of this report, and are available from the Internal Audit team upon request. |

2.4 Effectively Functioning Controls

We would like to draw management attention to the controls in operation over processes and procedures that were confirmed via audit testing as operating effectively and efficiently:

- Timetable for Setting - Budget set and presented to Cabinet in good time.
- Guidance for Setting - Guidance clear and well laid out
- Budget Monitoring - In the interviews with Budget Holders, it was requested that we make a special mention for the amazing level of support provided by the Finance Team, particularly Democratic Services who stated that Danielle Patterson is “brilliant in her role”, and Environmental Protection who stated that Georgina Peck is an “absolute star”.
- Budget Monitoring Management Information - Financial reports prepared to a high standard

2.5 Audit Team

The audit team for this review comprised

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|----------------|------------|
| Audit Manager | L Fuller |
| Senior Auditor | J Metcalfe |
| Auditor | J Irvine |

2.6 Acknowledgements

We would like to thank the management and staff of the Finance Team contacted for their co-operation and time during the course of this audit.



This audit has been undertaken in accordance with the Internal Audit Partnership arrangements between East Suffolk Council and Ipswich Borough Council.