

Annual Internal Audit Opinion 2019/20

Pendle Borough Council

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1. Introduction

The purpose of this Annual Internal Audit Opinion is to contribute to the assurances available to those charged with governance which underpin the Council's own assessment of the effectiveness of the organisation's system of internal control (in line with the Accounts and Audit Regulations 2015). This Opinion will assist the Accounts and Audit Committee in the completion of its Annual Governance Statement (AGS), which must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and internal control.

The council has an in-house team and during the course of 2019/20, MIAA were asked to support in the delivery of the audit plan, through the undertaking of specific audit assignments. The majority of the plan has been completed, with a small number of reviews at draft report stage, awaiting management responses. Completion has been impacted by the ongoing COVID-19 pandemic.

2. Executive Summary

This Annual Report provides the 2019/20 Head of Internal Audit Opinion for Pendle Borough Council, together with the planned internal audit coverage and output during 2019/20.

Key Area	Summary
Annual Internal Audit Opinion	The overall opinion for the period 1 st April 2019 to 31 st March 2020 provides Substantial Assurance ; that while there is a basically sound system of control, there are weaknesses which may put the system objectives at risk.
Planned Audit Coverage and Outputs	<p>The 2019/20 Internal Audit Plan has been delivered in accordance with the schedule agreed with the Accounts and Audit Committee in July 2019, including approved plan variations. This position has been reported within the progress reports across the financial year, with the final report concluding completion of the Internal Audit Plan. 63 recommendations have been raised as part of the reviews undertaken during 2019/20. All recommendations raised have been accepted by management. The Council's Internal Audit function has continued to undertake follow up reviews during the course of year.</p> <p>Both the Council auditors and MIAA are working extremely hard in their response to COVID-19 and continue to have a responsibility to ensure that robust governance arrangements are in place. At this point in the year, both audit teams have completed the majority of the 2019/20 Internal Audit Plans and are able to provide an opinion on that basis.</p> <p>The reviews of Client Function and Staff Allowances/ Expenses (delivered by the in house audit team) and Main Accounting System, National Non-Domestic Rates and IT Service Continuity & Resilience (delivered by MIAA) are in progress and will be reported to the Accounts & Audit Committee in due course.</p>

Key Area	Summary
Quality of Service Indicators	<p>The Council's Internal Audit Charter sets out the purpose, authority and responsibility of the internal audit activity in line with PSIAS; to which the in-house team has reported against to the Accounts and Audit Committee as part of their progress updates.</p> <p>MIAA operate systems to ISO Quality Standards. The External Quality Assessment, undertaken by CIPFA, provides assurance of MIAA's compliance with the Public Sector Internal Audit Standards (PSIAS).</p>

3. Annual Internal Audit Opinion

3.1 Roles and responsibilities

The whole Council must ensure that it has a sound system of internal control which:

- Facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- Ensures that the financial and operational management of the Council is effective; and
- Includes effective arrangements for the management of risk.

The Annual Governance Statement (AGS) should:

- how the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievements of policies, aims and objectives;
- the purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the Assurance Framework process; 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.

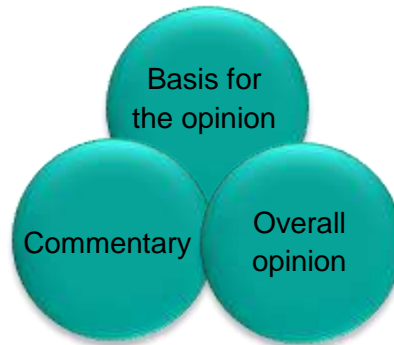
In accordance with Public Sector Internal Audit Standards, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Accounts and Audit Committee, which can provide assurance, subject to the inherent limitations described below. The outcomes and delivery of the internal audit plan are provided in Section 4.

The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led Assurance Framework. As such, it is one component that the Council takes into account in making its AGS.

The opinion has also been formed on the work undertaken by both the Council's in-house internal audit team and MIAA. Section 4 details that separation.

3.2 Opinion

Our opinion is set out as follows:



3.2.1 Basis

The basis for forming our opinion is as follows:

Basis for the Opinion
1. A review of the design and operation of the underpinning governance arrangements and supporting processes; undertaken by the Council as part of a self-assessment during the period.
2. An assessment of the range of individual assurances arising from the risk-based internal audit assignments that have been reported throughout the period. This assessment has taken account of the relative materiality of systems reviewed and management's progress in respect of addressing control weaknesses identified. The basis for this element is based on assignments undertaken by both the in-house team and MIAA.
3. An assessment of the organisation's response to Internal Audit recommendations, and the extent to which they have been implemented.

3.2.2 Overall Opinion

Our overall assurance opinion for the period 1st April 2019 to 31st March 2020 is:

Full; there is a sound system of internal control designed to achieve the system's objectives.	
Substantial; while there is a basically sound system of control, there are weaknesses which may put the system objectives at risk.	✓
Limited; weaknesses in the system of internal controls are such as to put the system objectives at risk.	
None; there is either very weak or no control leaving the system open to significant error or abuse.	

The audit opinions for the individual assignments undertaken by MIAA, have been mapped to the assurance opinion definitions of the Council.

3.3.3 Commentary

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

Our opinion covers the period 1st April 2019 to 31st March 2020 inclusive, and is underpinned by the work conducted through the risk based internal audit plan.

Governance, Risk Management & Internal Control

It is important that the Council demonstrates effective governance, underpinned by robust internal controls and adequately defined corporate functions. The assessment of the internal control environment is a key aspect of this annual report, and the narrative below confirms the arrangements in place.

To support the principles outlined in the requirements of a robust Annual Governance Statement (AGS) as set out in section 3.1, the Chief Executive has undertaken a self-assessment against these behaviours and actions to support the process and maintain robust governance arrangements throughout the year. The outcome of this review was presented to the Accounts and Audit Committee in January 2020 and demonstrates how governance is discharged in practice. The self-assessment utilised the *Delivering Good Governance in Local Government: A Framework* to underpin the operations within the Council. Committee members were presented with the outcome statement and were informed that those elements rated as Amber were under constant review. No elements were rated a Red (nil compliance).

The Internal Audit Service was delivered by a suitably qualified team comprising of the Audit Manager (part-year) and Auditor (part-qualified member). The internal audit service was supplemented by MIAA to deliver elements of the main internal audit plan for key financial systems and computer audit work.

The 2019/20 is based upon the final year of a 3-year Strategic Audit Plan (2017-2020). A risk based approach was used by the council's internal audit service to develop the plan which included an assessment of Council activity.

Managing the risk of fraud, theft and corruption

The arrangements takes two strands; one, reporting benefit fraud to the (Department of Work & Pensions) DWP's Single Fraud Investigation Service (SFIS) and investigating and reporting on all instances of fraud and corruption within its local service arrangements. Liberata now refer suspected Housing Benefit fraud cases to the SFIS, whilst continuing to investigate Council Tax Reduction Fraud and completing the National Fraud Initiative (NFI) matches. The second, an internal element that is provided by the Council' Internal Audit Team.

The Council's Internal Audit Team reports fraud activity periodically to the Accounts and Audit Committee. Internal Audit continued to monitor work around performed around the National Fraud Initiative (NFI).

Follow Up

During the course of the year, the Council's audit team have undertaken follow up reviews and reported them to the Accounts and Audit Committee on a quarterly basis. The Council continue to utilise the Implementation of Recommendations Database (IARD) and following a review of this, we can conclude that the organisation has made **good progress** with regards to the implementation of recommendations.

4. Internal Audit Coverage and Outputs

The Internal Audit Plan has been delivered in accordance with the schedule agreed with the Audit Committee at the start of the financial year. This position has been reported within the progress reports across the financial year, with the final report concluding completion of the Internal Audit Plan.

Of the reviews completed in the year, assurance ratings were given in 23 cases. The audit assignment element of the Opinion is limited to the scope and objectives of each of the individual reviews. The reviews of Client Function and Staff Allowances/ Expenses (delivered by the in house audit team) and Main Accounting System, National Non-Domestic Rates and IT Service Continuity & Resilience (delivered by MIAA) are in progress and will be reported to the Accounts & Audit Committee in due course. Delivery of the MIAA reviews were impacted by the ongoing pandemic. Detailed information on the limitations (including scope and coverage) to the reviews has been provided by the council's Internal Audit function within the individual audit reports and through the Accounts & Audit Committee Progress Reports throughout the year.

A summary of the reviews performed in the year is provided below:

	Review	Assurance Opinion	Recommendations Raised			
			Priority 1	Priority 2	Priority 3	Total
Council's IA Function						
1	PB3 – Section 106 Agreements	Limited (Draft)	-	6	0	6
2	DL3 – Land Charges	Substantial	-	-	1	1
3	DL8 – Freedom of Information	Substantial	-	1	1	2
4	EH1 – Environmental Health Pest Control	Substantial	-	2	-	2
5	EH5 – Immigration Inspections	Substantial	-	2	-	2
6	HRS5 - Homelessness	Substantial	-	4	1	5
7	ESP3 – Parking Enforcement	Substantial	-	1	1	2
8	HR5 – Flexitime System	Substantial	-	5	2	7
9	OS7 – Corporate Health & Safety	Substantial	-	1	-	1
10	PR6 – Vehicles, Plant & Salvage	Substantial	-	2	2	4
11	PS4 – Land & Property	Substantial	-	-	1	1

	Review	Assurance Opinion	Recommendations Raised			
			Priority 1	Priority 2	Priority 3	Total
12	HRS2 – Disabled Facilities Grants	Substantial	-	1	2	3
13	HR1 – Payroll and Establishment	Substantial	-	3	2	5
14	FS10 - Procurement	Substantial (Draft)	-	-	1	1
15	DL2 - Licencing	Full	-	-	-	0
16	FS3 - Insurance	Full	-	-	-	0
17	FS5 - Treasury Management	Full	-	-	-	0
18	PS3 – Industrial & Commercial Rents	Full	-	-	-	0
MIAA						
	Review	Assurance Opinion	Recommendations Raised			
			High	Medium	Low	Total
19	TS2 – Housing Benefits	Substantial	-	1	2	3
20	TS3 - Collection of Income & Reconciliation	Substantial (Draft)	-	4	3	7
21	TS4 - Council Tax	Substantial	-	1	2	3
22	FS1 - Creditors & Purchasing	Moderate (Draft)	1	3	2	6
23	Remote Working/ Mobile Devices	Substantial (Draft)	1	1	-	2
TOTAL			2	38	23	63

All recommendations raised were accepted by management.

We will continue to follow up progress against all recommendations as part of the 2020/21 Internal Audit Plan.

5. Areas for consideration – your Annual Governance Statement

The Annual Internal Audit Opinion is one source of assurance that the organisation has in providing its AGS other third party assurances should also be considered. In addition the organisation should take account of other independent assurances that are considered relevant.

We have identified a number of other strategic challenges that should be considered by the Council when drafting the AGS. Whilst the scope of the Internal Audit Plan would have considered elements of these, it is important that the Council reflects more widely on how these should be factored into the AGS. Areas for consideration include:

- Wider partnership/ collaborative working and engagement across the Lancashire footprint.
- Continued establishment and delivery of cross-organisation arrangements for the Better Care Fund and other pooled budget developments (e.g. Education; Lancashire County Council and Nelson & Colne College, Health; ICS involvement and Pendle Health & Wellbeing).
- Organisation performance, including challenges in achieving financial duties, ongoing financial viability, delivery of savings, service pressures and key relationships with and performance of third parties.
- Ongoing development of the Full Council and its Membership throughout the year.
- Any implications relating to in year changes to the Executive and Senior Management Team.
- Relationship and management of 3rd party providers upon which the Council places reliance, and the provision of assurances from these (including Liberata).
- Communication and engagement with the membership, key stakeholders and other partners.
- Information governance arrangements, risks and any associated incidents.
- Workforce capacity, engagement and development.
- Cyber security, information governance risks and any associated reportable incidents to the Information Commissioner.

6. Quality service indicators

The Council internal audit team has reported a number of quality assurance indicators to the Accounts and Audit Committee on an ongoing basis, including audit resource and delivered audits.

MIAA's strategy has quality at the heart of everything we do and our overall approach to quality assurance includes ISO9001:2015 accreditation, compliance with Public Sector Internal Audit Standards, the quality of our people and outcome measures.

The council revised their Internal Audit Charter in March 2019 setting out the purpose, authority and responsibility of the internal audit activity; and to which the in-house team report against to the Accounts and Audit Committee as part of their Progress Update.

MIAA comply fully with professional best practice, internal audit standards and legal requirements. MIAA assess compliance with the Public Sector Internal Audit Standards (PSIAS) each year.