



# Internal Audit Annual Report & Head of Internal Audit Opinion 2020/21

Pendle Borough Council

# Contents

- 1 Foreword
- 2 Introduction
- 3 Executive Summary
- 4 Head of Internal Audit Opinion
- 5 Internal Audit Coverage and Outputs
- 6 Areas for consideration - your Annual Governance Statement
- 7 MIAA Quality of Service Indicators

## 1 Foreword

The impact of COVID-19 on all public services has been considerable and for internal auditors it has raised the question of whether they will be able to undertake sufficient internal audit work to gain assurance during 2020/21. This is a key consideration to fulfil the requirements of the Public Sector Internal Audit Standards (PSIAS) for the Head of Internal Audit (HIA) to issue an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This opinion is in turn one of the sources of assurance that you rely on for your annual governance statement.

Whilst the considerable challenges and pressures you have faced this year are fully recognised, the professional and regulatory expectations on public sector organisations to ensure that their internal audit arrangements conform with the PSIAS have not changed. To enable us to do this we have had to work differently this year.

Throughout the year we have tried to keep you fully informed as things have developed culminating in the development of a revised risk assessment and Internal Audit Plan. This plan was designed to be fluid and agile to enable us to respond to your changing requirements, ensure the most effective use of your internal audit resource and meet the requirements in delivering a Head of Internal Audit Opinion.

Due to the actions taken with you during the year we have been able to undertake sufficient work to enable us to provide you with a Head of Internal Audit Opinion.

During 2020/21 MIAA also had an independent External Quality Assessment undertaken by CIPFA which concluded that we fully complied with all aspects of the PSIAS.

We would like to take this opportunity to thank the Accounts & Audit Committee and all the staff at the Council for their ongoing support during the year.

*Steve Connor*

Managing Director, MIAA

June 2021

## 2 Introduction

The purpose of this Head of Internal Audit Opinion is to contribute to the assurances available to the Accountable Officer and the Council which underpin the organisation's own assessment of the effectiveness of the organisation's system of internal control. This Opinion will assist the Council in the completion of its Annual Governance Statement (AGS), along with considerations of organisational performance, regulatory compliance, the wider operating environment and health and social care transformation.

This opinion is provided in the context that the Council like other organisations across local government have faced unprecedented challenges due to COVID-19.

## 3 Executive Summary

This annual report provides the 2020/21 Head of Internal Audit Opinion for Pendle Borough Council, together with the planned internal audit coverage and outputs during 2020/21 and MIAA Quality of Service Indicators.

Key Area	Summary
<b>Head of Internal Audit Opinion &amp; the Role of Internal Audit During the Pandemic</b>	<p>The overall opinion for the period 1<sup>st</sup> April 2020 to 30<sup>th</sup> June 2021 provides Substantial Assurance, that that there is a good system of internal control designed to meet the organisation's objectives, and that controls are generally being applied consistently. This is underpinned by the work conducted through the risk-based internal audit plan.</p> <p>The Internal Audit Standards Advisory Board (IASAB) issued guidance regarding conformance with the Public Sector Internal Audit Standards (PSIAS) during the coronavirus pandemic (May 2020). All our work has continued to be delivered in full compliance with the PSIAS.</p> <p>MIAA adopted a pragmatic approach to the delivery of your Internal Audit Service during 20/21, with the focus on the delivery of your Head of Internal Audit Opinion. This again, was in line with the IASAB guidance.</p>
<b>Planned Audit Coverage and Outputs</b>	<p>The 2020/21 Internal Audit Plan has been delivered with the focus on the provision of your Head of Internal Audit Opinion. This position has been reported within the progress reports across the financial year.</p> <p>The impact on the organisation of COVID-19 required us to review your internal audit risk assessment and plan for 2020/21 on a regular basis, in liaison with yourselves.</p> <p>Therefore review coverage has been focused on:</p> <ul style="list-style-type: none"> <li>• The organisation's risk management arrangements;</li> <li>• Core and mandated reviews, including follow up; and</li> <li>• A range of individual risk based assurance reviews.</li> </ul>

<b>MIAA Quality of Service Indicators</b>	MIAA operate systems to ISO Quality Standards. The External Quality Assessment, undertaken by CIPFA (2020), provides assurance of MIAA's full compliance with the Public Sector Internal Audit Standards.
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## 4 Head of Internal Audit Opinion

### 4.1 Roles and responsibilities

The whole Council is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS) is an annual statement by the Accountable Officer, on behalf of the Council, setting out:

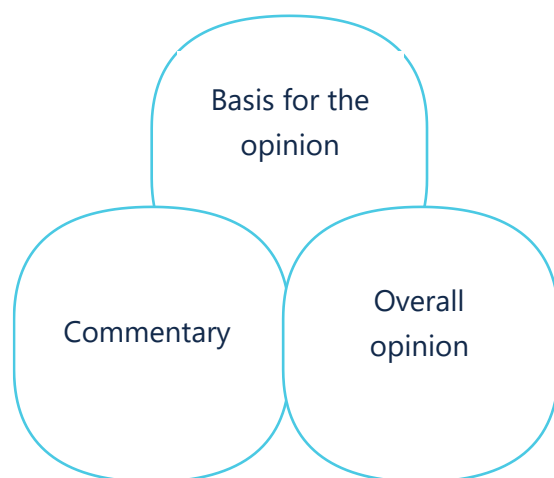
- how the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievements of policies, aims and objectives;
- the purpose of the system of internal control as evidenced by a description of the risk management and review processes; 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 & 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 corporate risk register. As such, it is one component that the Council takes into account in making its AGS.

### 4.2 Opinion

Our opinion is set out as follows:



#### 4.2.1 Basis

The basis for forming our opinion is as follows:

##### Basis for the opinion

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- 1 An assessment of the design and operation of the underpinning strategic governance arrangements and supporting processes.
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- 2 An assessment of the range of individual assurances arising from the risk-based internal audit assignments that have been reported throughout the period; undertaken by both the in-house Internal Audit Team and MIAA. This assessment has taken account the relative materiality of systems reviewed and management's progress in respect of addressing control weaknesses identified.
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- 3 An assessment of the organisation's response to Internal Audit recommendations, and the extent to which they have been implemented.
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#### 4.2.2 Overall Opinion

Our overall opinion for the period 1<sup>st</sup> April 2020 to 31<sup>st</sup> March 2021 is:

High Assurance, can be given that there is a strong system of internal control which has been effectively designed to meet the organisation's objectives, and that controls are consistently applied in all areas reviewed.	
<b>Substantial Assurance</b> , can be given that that there is a good system of internal control designed to meet the organisation's objectives, and that controls are generally being applied consistently.	✓
Moderate Assurance, can be given that there is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some of the organisation's objectives at risk.	
Limited Assurance, can be given that there is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls impacts on the overall system of internal control and puts the achievement of the organisation's objectives at risk.	
No Assurance, can be given that there is an inadequate system of internal control as weaknesses in control, and/or consistent non-compliance with controls could/has resulted in failure to achieve the organisation's objectives.	

#### 4.3.3 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 1<sup>st</sup> April 2020 to 30<sup>th</sup> June 2021 inclusive, and is underpinned by the work conducted through the risk based internal audit plan. The period of coverage has been extended due to the impact of the pandemic.



## Follow Up

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During the course of the year we have undertaken follow up reviews and can conclude that the organisation has made **good progress** with regards to the implementation of recommendations. We will continue to track and follow up outstanding actions.

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We have raised 30 recommendations as part of the reviews undertaken during 2020/21. All recommendations raised by MIAA have been accepted by management.

Of these recommendations: none were **critical** or were **high risk recommendations**.

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## Wider organisation context

This opinion is provided in the context that the Council like other organisations across the public sector is facing a number of challenging issues and wider organisational factors particularly with regards to the ongoing pandemic response. The COVID-19 pandemic led to changes to the establishment of the control and command structures both regionally and within individual organisations and an ongoing focus on the emergency response. This has required public sector organisations to operate in a different way to previous 'business as usual' practice. Guidance was clear that financial constraints must not stand in the way of taking immediate and necessary action but that there was no relaxation in fiduciary duties. This has meant that rapid actions and decisions needed to be and continue to be made in relation to key governance processes and internal control arrangements. The challenge for organisations has been to strike a practical balance between documenting the basis for decisions and not slowing down the decision-making processes.

During the Covid response, there has been an increased collaboration between organisations as they have come together to develop new ways of delivering services safely and to coordinate their responses to the pandemic.

In providing this opinion I can confirm continued compliance with the definition of internal audit (as set out in your Internal Audit Charter), code of ethics and professional standards. I also confirm organisational independence of the audit activity and that this has been free from interference in respect of scoping, delivery and reporting.

*Steve Connor*

Managing Director, MIAA

June 2021

## 5 Internal Audit Coverage and Outputs

The 2020/21 Internal Audit Plan has been delivered with the focus on the provision of your Head of Internal Audit Opinion. This position has been reported within the progress reports across the financial year.

Of the reviews completed in the year, assurance ratings were given in 8 cases. An assurance rating was not applicable for 1 review due to the nature of this work. The audit assignment element of the Opinion is limited to the scope and objectives of each of the individual reviews. Detailed information on the limitations (including scope and coverage) to the reviews has been provided 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				
			Critical	High	Medium	Low	Total
1	GDPR	N/A	N/A	N/A	N/A	N/A	N/A
2	Risk Management	Moderate	0	0	5	1	6
3	Treasury Management	Substantial	0	0	1	0	1
4	Client Function	Substantial	0	0	3	3	6
5	Corporate Health & Safety	Substantial	0	0	3	1	4
6	Housing Benefits	Substantial	0	0	4	1	5
7	Council Tax	Substantial	0	0	2	0	2
8	National Non-Domestic Rates	Substantial	0	0	2	0	2
9	Main Accounting System*	Substantial	0	0	4	0	4
	TOTAL		0	0	24	6	30

The reviews of Creditors & Purchasing and Payroll have been issued as draft versions. The 2020/21 audits of the Main Accounting System and Collection of Income & Debtors were in progress.

\*2019/20 carry forward.

<sup>1</sup>output delivered by the previous in-house internal audit function.

All recommendations raised were accepted by management.

We will continue to follow up progress against all recommendations as part of the 2021/22 Internal Audit Plan.

## 6 Areas for consideration – your Annual Governance Statement

The Head of 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 Governing Body when drafting the AGS. Whilst the scope of the Internal Audit Plan would have considered elements of these, it is important that the CCG 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 (e.g. Lancashire Resilience Forum).
- Continued establishment and delivery of cross-organisation arrangements for the Better Care Fund and other pooled budgets development (e.g. Education, Lancashire County Council, Nelson & Colne college College, the Health and Wellbeing Board).
- Impact of the revised financial regime on decision making, achieving financial duties, ongoing financial viability, delivery of savings, service pressures and key relationships/ performance of third parties.
- The results/ thematic findings of any COVID-19 Grant Expenditure Reviews.
- Changes to governance, risk management and internal control arrangements due to the ongoing COVID-19 response and the functioning of emergency responses structures (including the impact on decision making processes).
- Impact of the COVID-19 response on the ongoing delivery of services and compliance with legislative and regulatory requirements (e.g. UK Corporate Governance Code). Maintenance and improvement of the quality of services alongside and overall organisation performance, including the delivery of targets.
- Council leadership, including any significant changes following the elections, Executive and Senior Management Team.
- Workforce capacity, engagement, wellbeing and development.
- Ensuring there is a fit for purpose infrastructure.
- Cyber security, information governance risks and any associated reportable incidents to the Information Commissioner.
- Relationship and management of 3rd party providers upon which the organisation places reliance, and the provision of assurances from these (e.g. Liberata).

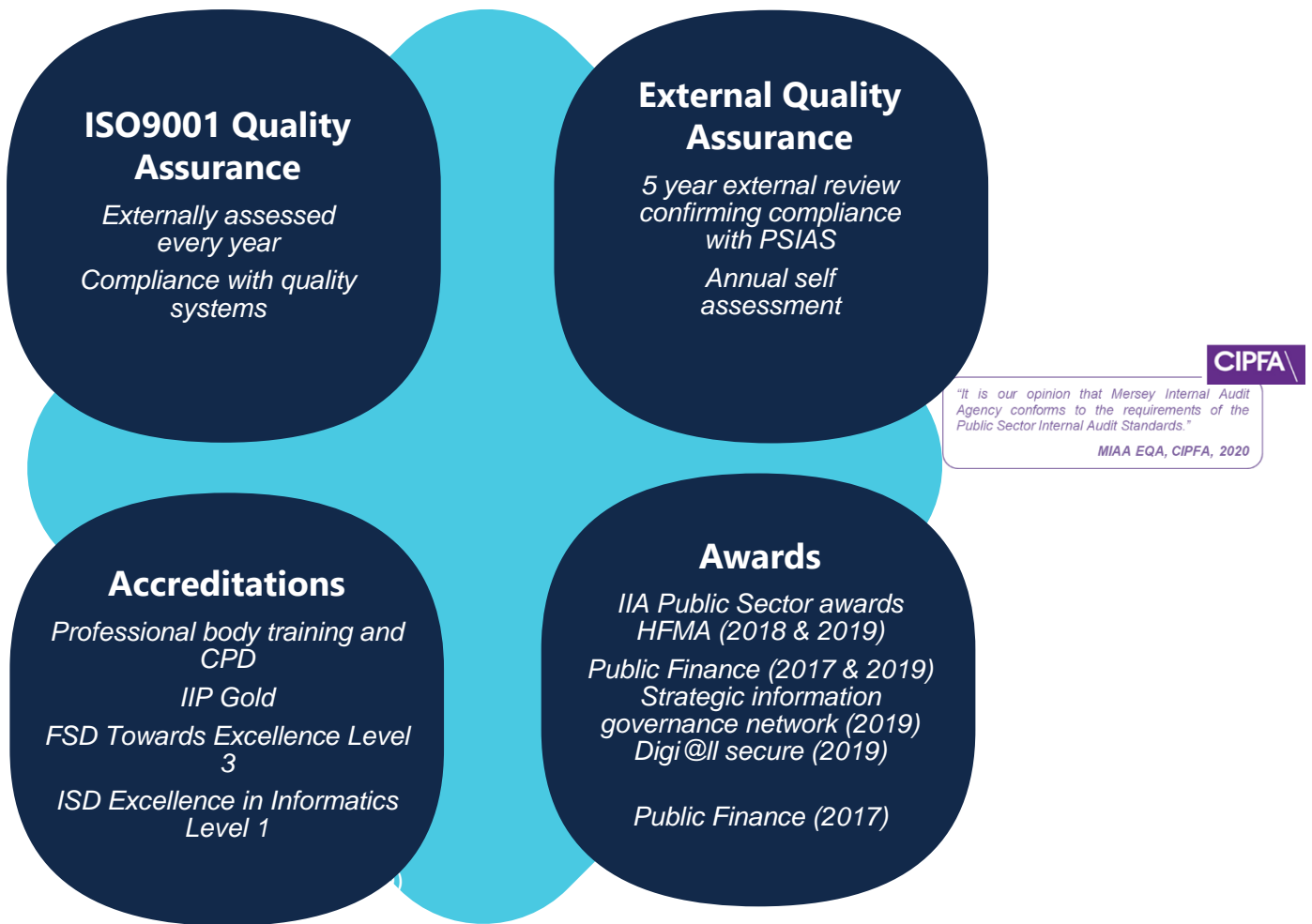
## 7 Ensuring Quality

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.

### 7.1 Professional Standards and Accreditations

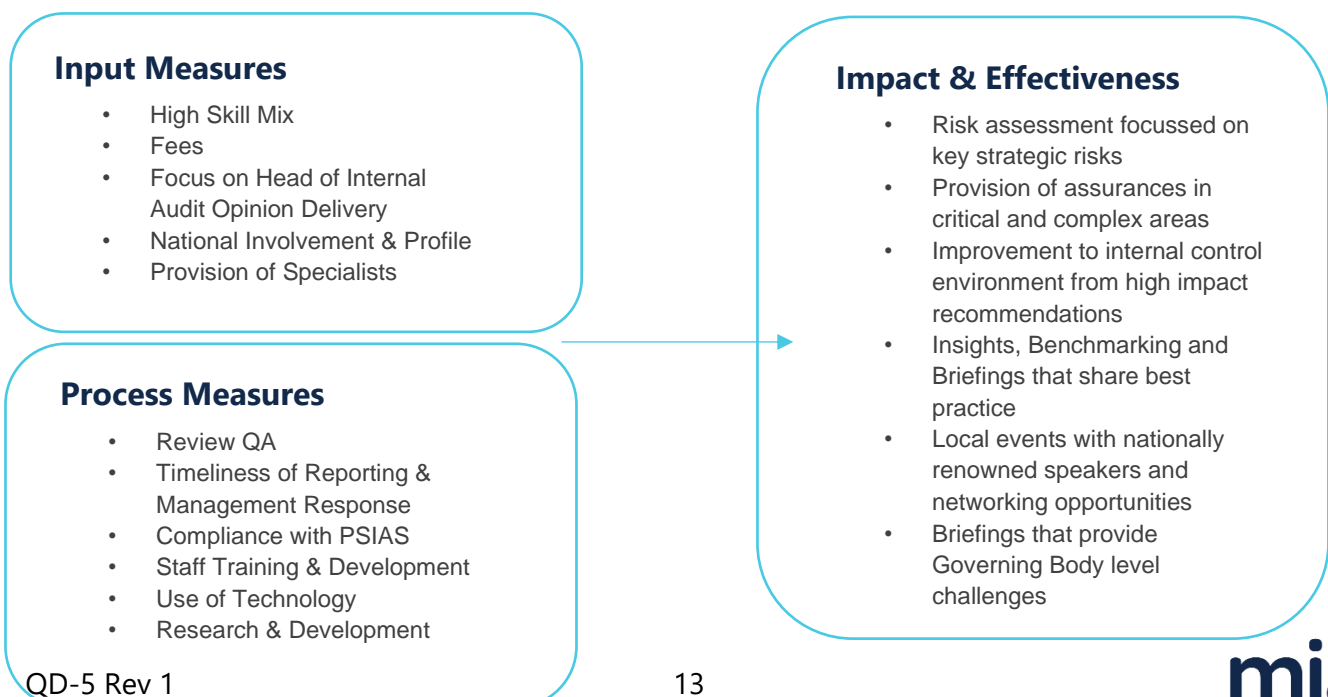
MIAA comply fully with professional best practice, internal audit standards and legal requirements. We assess our compliance with the Public Sector Internal Audit Standards (PSIAS) each year.





## 7.2 Service delivery and outcome measures

It is important that client organisations ensure an effective Internal Audit Service, and whilst input and process measures offer some assurance, the focus should be on outcomes and impact from the service. The figure below confirms the measures that we believe demonstrate an effective service to you.



MIAA regularly report on input and process KPIs as part of our Accounts & Audit Committee Progress reports, and the impact and effectiveness measures can be assessed through the HOIA Opinion.

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