



Internal Audit Annual Report & Head of Internal Audit Opinion 2021/22 - Final

Pendle Borough Council

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1 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 Council'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 and the wider operating environment.

This opinion is provided in the context that the Council like other organisations across the public sector has continued to faced unprecedented challenges due to COVID-19.

2 2021/22 Internal Audit Service Delivery

COVID-19 has continued to impact all public services, however, our response during 2020/21 and the need to work differently has provided a strong basis for the delivery of planned work in 2021/22. We have continued to act as a critical friend throughout the pandemic providing key assurances across a range of areas including governance and risk management. There has remained a strong focus on engagement with organisations and the Accounts and Audit Committee.

The re-introduction of restrictions and increased levels of staff sickness (both internal audit and at organisations) due to the Omicron variant has provided additional challenges to the delivery of planned work, during the final quarter of the year. However, there has been a clear focus by both internal auditors and organisations on requirements to deliver a HoIAO and to support year end reporting.

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

3 Executive Summary

This annual report provides the 2021/22 Head of Internal Audit Opinion for Pendle Borough Council, together with the planned internal audit coverage and outputs during 2021/22 and MIAA Quality of Service Indicators.

Key Area	Summary
Head of Internal Audit Opinion	<p>The overall opinion for the period 1st April 2021 to 31st March 2022 provides Moderate Assurance 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.</p> <p><i>In considering the overall opinion, the targeted and effective use of Internal Audit as part of the system of internal control has been considered. Internal Audit resource has been directed into known risk areas by the Council. The risk based approach adopted by the Council supports the overall opinion of Moderate Assurance.</i></p>
Planned Audit Coverage and Outputs	<p>The 2021/22 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. Review coverage has been focused on:</p> <ul style="list-style-type: none"> • The organisation's Risk Assurance Framework • Core reviews, including follow up; and • A range of individual risk based assurance reviews.
MIAA Quality of Service Indicators	<p>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.</p>

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 Leader of the Council and the Chief Executive, on behalf of the Council, setting out:

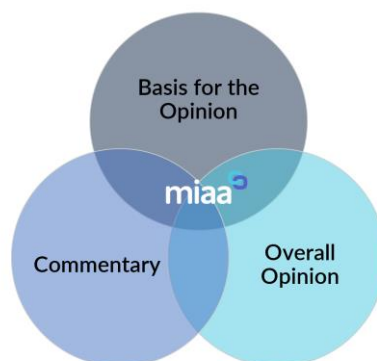
- how the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievements of policies, aims and objectives;
- the purpose of the system of internal control as evidenced by a description of the risk management and review processes, 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, and produced on behalf of the Council, from the conduct of work undertaken by MIAA. Section 5 details internal audit coverage.

4.2 Opinion

Our opinion is set out as follows:



4.2.1 Basis

The basis for forming our opinion is as follows:

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

4.2.2 Overall Opinion

Our overall opinion for the period 1st April 2021 to 31st March 2022 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.	
Substantial Assurance, 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 1st April 2021 to 31st March 2022 inclusive, and is underpinned by the work conducted through the risk based internal audit plan.

4.3.3.1 Assurance Framework

Our work has consisted of assessing progress with implementing the recommendations from the internal audit review of risk management that was completed in 2020/21 and provided moderate assurance. Since the review the Council's Risk Management Strategy & Policy have been updated and approved which incorporates a risk scoring model. Three recommendations from the 2020/21 Risk Management review are in progress and are due for completion in September 2022; these relate to providing risk management training and review of risk registers. A further review of Risk Management is planned for 2022/23.

4.3.3.2 Core & Risk Based Reviews Issued

We issued:

0 high assurance opinion:	No reviews received a high assurance opinion.
4 substantial assurance opinions:	Payroll (2020/21) Land Charges Client Function (Liberata) Insurance
4 moderate assurance opinions:	Collection of Income & Debtors (2020/21) Cyber Security (Remote Working) Disabilities Facilities Project Joint Ventures (draft)
4 limited assurance opinions:	Main Accounting System (2020/21) Creditors & Purchasing (2020/21) ICT Strategy (infrastructure project) Emergency Preparedness (draft)
0 no assurance opinions:	No reviews received a no assurance opinion.
1 review without an assurance rating	Conflicts of Interest

4.3.3.3 Follow Up

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

We have raised 61 recommendations as part of the reviews undertaken during 2021/22. All recommendations raised by MIAA have been accepted by management.

Of these recommendations: **0** were **critical** and **18** were **high risk recommendations** in relation to the reviews of Main Accounting System, Collection of Income and Debtors, Creditors and Purchasing, Cyber Security, ICT Strategy, Disabilities Facilities Grant and Emergency Preparedness.

4.3.3.4 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 and wider system developments. The challenges for organisations have included continuing to ensure an effective pandemic response and delivering business as usual requirements.

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.

Chris Harrop

Managing Director, MIAA
June 2022

Louise Cobain

Assurance Director, MIAA
June 2022

5 Internal Audit Coverage and Outputs

The 2021/22 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.

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 Audit and Standards 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	Main Accounting System (2020/21)	Limited	0	3	5	0	8
2	Collection of Income & Debtors (2020/21)	Moderate	0	1	2	0	3
3	Creditors & Purchasing (2020/21)	Limited	0	4	3	2	9
4	Payroll (2020/21)	Substantial	0	0	2	1	3
5	Cyber Security (Remote working)	Moderate	0	1	4	0	5
6	ICT Strategy	Limited	0	4	1	0	5
7	Disabilities Facilities Grant	Moderate	0	1	3	1	5
8	Land Charges	Substantial	0	0	3	0	3
9	Emergency Preparedness (draft)	Limited	0	4	2	1	7
10	Joint Ventures (draft)	Moderate	0	0	5	1	6
11	Client Function (Liberata)	Substantial	0	0	3	1	4
12	Insurance	Substantial	0	0	2	1	3
13	Conflicts of Interest*	N/A	0	0	0	0	0
	TOTAL		0	18	35	8	61

*Conflicts of Interest – no formal recommendations but 11 areas for enhancement highlighted.

All recommendations raised were accepted by management.

We will continue to follow up progress against all recommendations as part of the 2022/23 Internal Audit Plan.

ADVISORY SUPPORT AND GUIDANCE: Areas where MIAA have supported the organisation in strengthening arrangements in respect of governance, risk management and internal control.

Audit Committee development session held in January 2022 and facilitated by MIAA.

CONTRIBUTION TO GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL ENHANCEMENTS: *Additional areas where MIAA have provided added value contributions.*

Detailed insight into the overall Governance and Assurance processes gained from liaison throughout the year with the Officer/ Senior Management Team and facilitation of Accounts and Audit Committee development session.

Ongoing discussion with lead Officers and Managers throughout the year.

Facilitation of Accounts and Audit Committee effectiveness session.

Effective utilisation of internal audit including in year communication, requests for support in providing an Audit Committee development session in January 2022.

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 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 (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 and the Health & 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.
- 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 to the Council 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

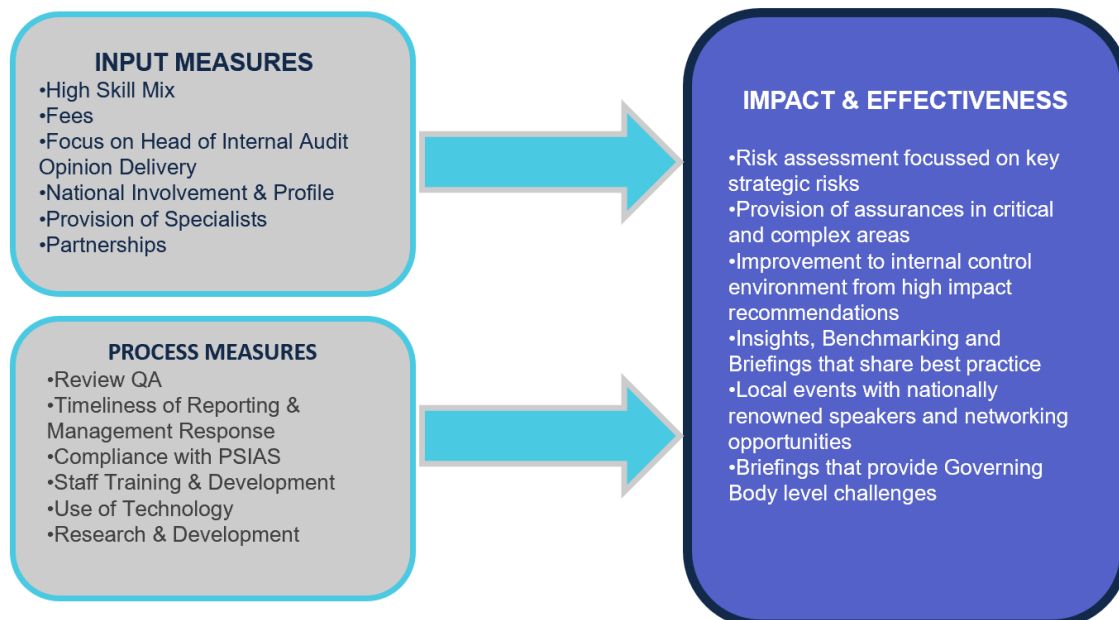
MIAA comply fully with professional best practice, internal audit standards and legal requirements. We assess our compliance with the Public Sector Internal Audit Standards (PSIAS) each year.





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 and Audit Committee Progress reports, and the impact and effectiveness measures can be assessed through the HOIA Opinion.

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