

Report to	On
Governance Committee	Tuesday, 25 May 2021

Title	Report of
Internal Audit Annual Report	Director of Governance and Monitoring Officer

Is this report confidential?	No
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Purpose of the Report

1. The purpose of this report is to summarise the work undertaken by the Internal Audit Service during 2020/2021 and to give an opinion as required by the Public Sector Internal Audit Standards on the adequacy and effectiveness of the Council's framework of governance, risk management and control.
2. The report also includes the results of the Quality Assurance and Improvement Programme.

Recommendations

3. That the Committee note the contents of the report.

Corporate outcomes

4. The report relates to the following corporate priorities:

An exemplary council	X	Thriving communities	
A fair local economy that works for everyone		Good homes, green spaces, healthy places	

The Role of Internal Audit

5. The Internal Audit Service is an assurance function that provides an independent and objective opinion on the adequacy and effectiveness of the council's control environment. The Public Sector Internal Audit Standards (PSIAS) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) require the head of internal audit to provide an opinion on the council's control environment. This report fulfils this requirement and assists the council in meeting the requirements of the Accounts and Audit Regulations 2015.

Internal Audit Plan 2020-21

6. During 2020-21, it was reported to members that the Internal Audit Service was in a period of transition for 3 main reasons:
- Reduced capacity. For a large proportion of the year, the service operated on reduced resources due to the loss of a number of experienced officers. Whilst the service utilised temporary staff, this impacted upon service continuity, provision and work planning.
 - COVID 19. The national lockdowns had a significant impact on the service. Internal Audit Team assisted with the council's initial response and were redeployed to the Community Hubs to provide support. As a result, approximately 176 audit chargeable and non-chargeable days were lost.
 - As Internal Audit returned to normal duties, it was apparent that other services and teams were largely diverted onto covid response and this impacted upon the planning and delivery of audits.
7. Despite the above challenges, the table below shows the work undertaken by the Internal Audit Service over the course of the year including a summary of work and the assurance rating awarded.

Review	Assurance Rating	Summary of work completed / findings
South Ribble Council		
Annual Governance Statement (2020)	Not applicable	The Council is required under 10(1)(b) of the Accounts and Audit Regulations 2015 to publish an Annual Governance Statement. The role of Internal Audit was to co-ordinate a review of the system of governance and highlight any improvement actions to include in the Annual Governance Statement Action Plan.
Assurance Mapping (19-20)	Not applicable	Whilst this work was completed as a separate exercise, assurance mapping is included with the Audit Planning Risk Assessment and is updated on an on-going basis.
Anti Fraud and Corruption	Not applicable	Fraud alerts were issued on an on-going basis.
National Fraud Initiative (NFI)	Not applicable	The use of NFI has been extensive over the course of the past year. In addition to the biennial exercise, data has also been uploaded for the numerous COVID

		Business Support Grants. Furthermore, the council has recently taken advantage of the pre-payment checks offered by the NFI to reduce the risk of grant payments being made either in error or fraudulent claims. The results of the data matching exercises are due to be released over the coming weeks and the results will be reported to the committee over the course of the coming year.
Corporate Complaints (20-21)	Substantial	No key control issues identified
GDPR Implementation Follow up Review	Not applicable	Our work has concluded that the majority of actions have been implemented within the agreed timescale. The remaining outstanding actions are in progress, however is largely due to the significant change in working practices that they have not yet been fully implemented.
Council Tax	Substantial	No key control issues identified
Business Rates	Full	No key control issues identified
Housing Benefits	Substantial	No key control issues identified
Car Park Management / Enforcement follow up review	Not applicable	Our review concluded that 5 actions have been fully implemented and that only 1 action in progress which is expected to be fully implemented in the near future.
Project Support	Not applicable	On-going support has been provided to project managers over the course of the year.
Risk and Control Self Assessment	Not applicable	On-going support has been provided to risk owners over the course of the year.
COVID support work / Business Grants / Test and Trace	Not applicable	A considerable amount of work has been undertaken in support of the various grants paid over the past 12 months. Newly introduced processes were considered by Internal Audit prior to

		<p>implementation. In addition, risk assessments required by the Department for Business, Energy and Industrial Strategy (BEIS) have been completed in conjunction with Shared Financial Services.</p> <p>The Internal Audit Plan for 21-22 contains a substantial number of days to allow for post assurance work to take place.</p>
Shared Services		
Creditors	Not applicable	<p>A review of Creditors was undertaken in 2019/20 and draft report findings were taken to the Governance Committee in June 2020. It was agreed that due to the issues identified further substantive work would be undertaken.</p> <p>Additional substantive testing was carried out on 6.5% of all purchase orders raised (where there was a variance above £0.01). Testing found that the discrepancies are reasonably explained. A detailed action plan has been agreed and will be followed up using the newly introduced process.</p>
Money Laundering	Adequate	<p>Our work identified that the Council has an Anti-Money Laundering Policy that provides suitable guidance for officers, establish reporting arrangements, and provide details of the officer nominated as the Council's Money Laundering Reporting Officer (MLRO) and their associated responsibilities. Officers within key service areas had an awareness of money laundering and were undertaking due diligence checks, when required, as part of the day-to-day delivery of the service.</p> <p>Our review, however, has highlighted some areas of improvement and these include:</p> <ul style="list-style-type: none"> • A review and relaunch of the Policy • Training to be provided to all Officers and Members.

Definition of Assurance Ratings

Assurance Rating	Definition
Full	The Authority can place complete reliance on the controls. No control weaknesses exist.
Substantial	The Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.
Adequate	The Authority can place only partial reliance on the controls. Some control issues need to be resolved.
Limited	The Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist

Follow up of agreed management actions

8. For the reviews completed, a 100% agreement rate has been achieved. All agreed actions contained within the reviews completed have been accepted and will followed up to ensure implementation and will be reported on at future meetings of the committee.
9. The Annual Governance Statement update report presented to the Governance Committee in March 21, contained the following action:

Agree an approach to monitoring and managing the implementation of management actions agreed in internal audit reports - The consideration of this action was deferred until after the appointment of the Service Lead for Audit and Risk to enable them to lead on it. Internal Audit are currently identifying all agreed management actions which remain outstanding.

10. Since February 2021, we have been working with Directors to establish the status of each outstanding action. The table below shows the current position:

Number of actions outstanding as at Feb 2021	Number of actions fully implemented	Number of actions in progress or revised dates agreed	Percentage implementation rate
135	94	41	70%

11. All remaining outstanding actions will be recorded on GRACE which will allow for a systematic reporting regime to be introduced which will include monthly monitoring by the Corporate Governance Group and reports to Directors / Service Leads.

Head of Audit Opinion

12. The Public Sector Internal Audit Standards require the Head of Audit to provide an opinion on the overall adequacy and effectiveness of the organisation's framework of control, risk management and governance. Members may recall that CIPFA issued guidance relating to the opinion and that a limitation of scope may be applicable due to the impact that COVID.

13. It has been reported to members over the course of 2020 that the impact of COVID-19 on the Internal Audit Service has been considerable and as can be seen in the table at paragraph 8, the results of the work carried out by internal audit, taken together with other sources of assurance, are not sufficient to support an annual opinion on the overall adequacy and effectiveness of the organisation's framework of **control**.
14. It is however, possible to provide an opinion on the overall adequacy and effectiveness of the organisations framework of **risk management and governance** and I can confirm that the arrangements are of an **adequate** standard.
15. Over the past 12 months, a significant amount of work has been undertaken to introduce and strengthen the governance and risk management arrangements throughout the whole council and this is clearly evidenced within the Local Code of Governance. The work undertaken by Internal Audit to support the compilation of the Annual Governance Statement Action Plan confirms that the framework of governance policies is now in place however there is further work to do to ensure that these are fully embedded.
16. Although I am unable to form an opinion on the control environment of the Council, members can be assured of the following:
- the work carried out during 2020-21 did not identify any control failures that have not been previously reported to the Committee;
 - robust actions plans are in place for any legacy issues with actions owners assigned and implementation dates agreed;
 - advisory work has been undertaken on new processes introduced as a result of COVID 19;
 - despite the lack of a systematic monitoring process for the implementation of agreed management actions emanating from Internal Audit Reports, a large proportion of actions have been implemented.
17. It must be stressed, that it is anticipated that as the committee have already approved a comprehensive audit plan, I fully anticipate being able to provide a complete opinion for the Annual Report for 2021-2022.

Quality and Improvement Assurance Programme (QAIP)

18. In accordance with the PSIAS, the Chief Internal Auditor (Service Lead Audit and Risk) has established a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both internal and external assessments.
19. The internal assessments include the following:
- An annual self-assessment of the effectiveness of the Internal Audit Service audit service using the PSIAS and Local Government Application Note. PSIAS. From this assessment an action plan highlighting areas for improvements will be developed.

- Day-to-day monitoring of compliance with the procedures and audit methodology that conform to the PSIAS, which will be regularly reviewed. All documentation used throughout the whole Internal Audit process is required to comply with the standards and this is recorded on final reports.

20. An external assessment must be undertaken once every 5 years. This was last undertaken in April 2018 and reported to the Governance Committee in May 2018. The assessment provides an external validation of the self-assessment with next assessment planned for 2023.

21. The internal annual self-assessment has now been conducted and the results are included as a separate report on the agenda. Five areas for improvement for the Internal Audit Service have been identified and details are included on the action plan at **Appendix A**.

There are no background papers to this report.

Appendices

Appendix A – Self Assessment Action plan

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