

Appendix A

Internal Audit Annual Report and Opinion 2022/2023

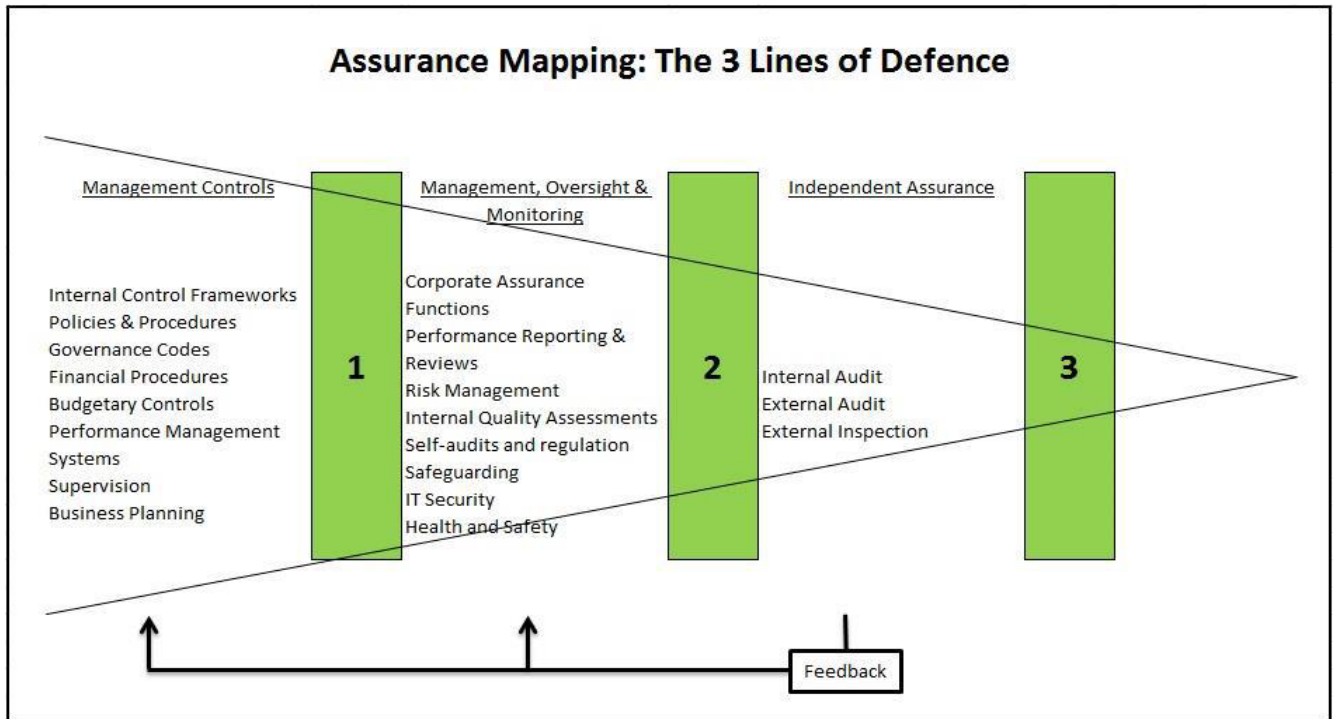
South Ribble Borough Council
Date 23rd May 2023
Dawn Highton – Head of Audit and Risk



WORKING TOGETHER

Introduction	
1	<p>The Public Sector Internal Audit Standards (PSIAS) note that a professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.</p> <p>The role of the Head of Audit, in accordance with the PSIAS, is to provide an annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control processes.</p> <p>The CIPFA Statement on the role of the Head of Internal Audit in Local Government noted that the Head of Internal Audit in a local authority plays a critical role in delivering the authority's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.</p> <p>The opinion is based upon the work performed and other sources of assurance, achieved through a risk-based plan of work, previously agreed with the Shared Senior Management Team and approved by the Governance Committee.</p>
2	<p>The Head of Audit and Risk performs the Head of Audit role for South Ribble Council and Shared Services.</p>

The Role of Internal Audit and Management	
3	<p>The statutory basis for Internal Audit in local government is the Accounts and Audit (England) Regulations 2015. Internal Audit work is also governed by the PSIAS whose definition of internal audit is:</p> <p><i>“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”</i></p>
4	<p>The Council has adopted a three line of defence model in which the responsibility for implementing a strong system of governance and internal control within the Council lies primarily with the Shared Senior Management Team.</p> <p>Directors and Heads of Service provide the first line of defence as they need to ensure that they maintain effective control procedures not least because services and business systems are subject to on-going change. Compliance / support functions provide the second line of defence, with the third line being provided by Internal Audit and other inspection agencies.</p> <p>Internal Audit do not repeat the work of the second line, rather it is considered during reviews to assess the level of reliability which can be placed upon it.</p>



Basis of the opinion

6 The Head of Audit and Risk is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its Annual Governance Statement.

In assessing the level of assurance to be given, the opinion has been given based on:

- Reviews undertaken and reports included within the Internal Audit Annual Plan;
- Advice / consultancy work undertaken by the Internal Audit team;
- The implementation of agreed management actions by Directorates;
- Internal Audit assessment of Risk Management
- Internal Audit assessment of Corporate Governance
- Other sources of assurance where appropriate;
- The quality and performance of the Internal Audit service and the extent to which it complies with the Public Sector Internal Audit Standards and ISO 9001 Quality Management System;

7 In giving the opinion it should be noted that an assurance opinion cannot be absolute as it is based on only those elements of governance and controls reviewed or taken into account as a result of any of the above activity.

Scope and Objectives of Internal Audit

8 The scope and objectives of Internal Audit are set out in the Internal Audit Charter which was last approved by the Governance Committee in March 2022.

9 The Internal Audit Charter also sets out any impairments or restriction in scope for Internal Audit as:

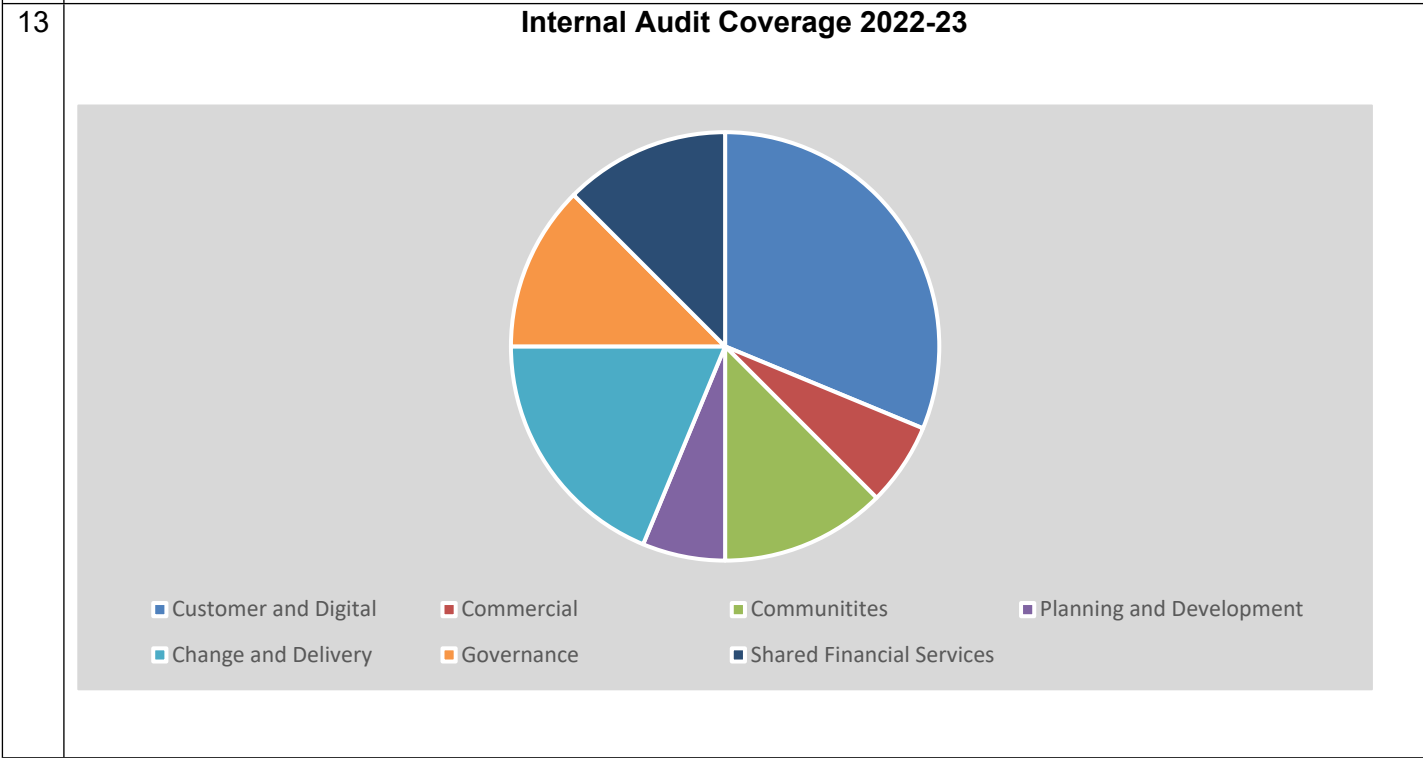
“The Head of Audit and Risk is also operationally responsible for Insurance, Business Continuity, Emergency Planning and Health and Safety functions and for the administration and development of, and reporting on, the Risk Management Strategy. It is considered prudent that any internal audit engagement covering the above operational areas and the risk management framework, especially for

	<i>the formation of the annual opinion on the effectiveness of the control environment, would be overseen by the Council's Monitoring Officer".</i>
10	A review of the risk management arrangements was undertaken during 2021-22, however due to the operational responsibility detailed above, this was carried out by an independent third party.
11	I can confirm that the Internal Audit Service is independent as no reviews have been undertaken during 22/23 which impact upon the independence of either the Internal Audit Service or the Head of Audit and Risk.

Audit Coverage for 2022/23

12 Over the past few years, it has become apparent that the audit plan needs to be dynamic and responsive to change. In previous years, an annual plan has been developed and approved, however, it has been recognized that alternative arrangements to make the plan more flexible and responsive to relevant issues as they arise, and to take account of changes to the Council's operations, transformation programme and risks would add more value to the organisation. It was, therefore agreed with both the Senior Management Team and the Governance Committee that for 2022/23, the Audit Plan would be developed bi-annually for 6-month periods.

In order to provide an opinion, coverage of the whole authority should be obtained. The two combined Plans contained a total of planned 16 audit reviews as detailed below. In addition, a further unplanned review was undertaken.



Work completed to support the opinion

14 The opinion is based primarily on the work carried out by the Council's Internal Audit service during 2022/23, as well as a number of other assurance providers. As the Head of Audit and Risk, I am satisfied that sufficient assurance work has been carried out to provide an annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control processes.

15	<p><u>Planned Audit Work</u></p> <p>Each review undertaken by Internal Audit is awarded an assurance opinion derived from the findings and based upon the following definitions:</p> <table border="1" data-bbox="177 338 1501 714"> <tr> <td data-bbox="177 338 464 443">Full</td> <td data-bbox="464 338 1501 443">the Authority can place complete reliance on the controls. No control weaknesses exist.</td> </tr> <tr> <td data-bbox="177 443 464 548">Substantial</td> <td data-bbox="464 443 1501 548">the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.</td> </tr> <tr> <td data-bbox="177 548 464 654">Adequate</td> <td data-bbox="464 548 1501 654">the Authority can place only partial reliance on the controls. Some control issues need to be resolved.</td> </tr> <tr> <td data-bbox="177 654 464 714">Limited</td> <td data-bbox="464 654 1501 714">the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist</td> </tr> </table> <p>Planned reviews completed during 2022-2023 and the assurance rating awarded is included in the table below:</p> <table border="1" data-bbox="177 869 1501 1514"> <tr> <td data-bbox="177 869 464 931">Full</td> <td data-bbox="464 869 1501 931"> <ul style="list-style-type: none"> • No reviews have been awarded full assurance during 2022-2023 </td> </tr> <tr> <td data-bbox="177 931 464 1068">Substantial</td> <td data-bbox="464 931 1501 1068"> <ul style="list-style-type: none"> • Safeguarding • Code of Conduct • VAT </td> </tr> <tr> <td data-bbox="177 1068 464 1310">Adequate</td> <td data-bbox="464 1068 1501 1310"> <ul style="list-style-type: none"> • Workshop Record Management • Community Hubs / Boost Fund • Absence Management • Key Strategic Partnerships and Contracts • Payroll • External Funding </td> </tr> <tr> <td data-bbox="177 1310 464 1514">Limited</td> <td data-bbox="464 1310 1501 1514"> <ul style="list-style-type: none"> • Utilities Management • Waste Services • Water Management • GDPR – Data Retention </td> </tr> </table>	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	Full	<ul style="list-style-type: none"> • No reviews have been awarded full assurance during 2022-2023 	Substantial	<ul style="list-style-type: none"> • Safeguarding • Code of Conduct • VAT 	Adequate	<ul style="list-style-type: none"> • Workshop Record Management • Community Hubs / Boost Fund • Absence Management • Key Strategic Partnerships and Contracts • Payroll • External Funding 	Limited	<ul style="list-style-type: none"> • Utilities Management • Waste Services • Water Management • GDPR – Data Retention
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16	<p>As the table highlights, during 2022/23, Internal Audit identified several areas of control weakness and work is on-going to strengthen the Council's control environment in relation to the weaknesses identified. These included (but not limited to):</p>																
17	<p>Utilities Management (Commercial Directorate)</p> <p>This review identified that there is a lack of overarching management of utilities, including:</p> <ul style="list-style-type: none"> ▪ Failure to assign responsibility for the administration and management of utilities; ▪ Inadequate arrangements in place to validate supplier invoices; ▪ Lack of policies and procedures to provide guidance and direction for officers. ▪ Non-compliance with regulations to ensure that the Council's responsibilities as a landlord are met regarding gas and electrical safety checks. ▪ Property records are inadequate and does not allow for the effective management of utilities; 																

	<ul style="list-style-type: none"> ▪ Failure to undertake a procurement exercise of water supplies since the deregulation of commercial water supplies. ▪ A lack of routine information sharing with Exchequer Services. <p>In addition, the Council has recently invested in a solar power system, however following receipt of guidance recently issued by the Councils insurers it has been identified that insufficient maintenance arrangements are in place, and that officers have not been adequately trained to manage the system.</p>
18	<p>Waste Services (Customer and Digital Directorate)</p> <p>Early in 2022, the Council made the decision to in-source the waste service and is now undertaking the collection of residential household waste using an in-house team.</p> <p>Our work identified that:</p> <ul style="list-style-type: none"> • the momentum for delivering the Mobilisation Plan had waned; • a range of Health and Safety risks were not adequately mitigated; • roles and responsibilities were not clearly defined; • CCTV to safeguard assets and help to protect the public and staff needed to be prioritized. <p>Acknowledgement was given during the review to the legacy issues that the Council has inherited from the previous waste contract and to the fact that the Service is realigning and taking steps to entrench itself into Council culture and corporate requirements.</p>
19	<p>Water Management (Customer and Digital Directorate)</p> <p>Our work established that there is evidence of awareness of the risks posed by the activities that are undertaken around areas of water. Some risk management measures are in place to reduce the risk to the public and employees/contractors working on-site, for instance Neighbourhood Officer site inspections and lifeline checks are carried out. Neighbourhood Officers are experienced and there is good evidence of team working to identify and address site issues/hazards. In addition, work is in currently in progress to identify and document all areas of water, reviewing sufficiency of current on-site safety signage/equipment (renewing and improving as required).</p> <p>However, the following significant management issues related to the management of water sites were identified:</p> <ul style="list-style-type: none"> • There is a lack of water management/safety policy; • A comprehensive list of water sites is not in place; • Site risk assessments that inform the nature and frequency of inspection for each site are not in place for all areas of water. • There is a lack of guidance/operating procedures for the Neighbourhood Officers undertaking site inspections. • Supervisory monitoring is not carried out to confirm that the inspection regime is working as intended. <p>A full copy of this report is attached at Appendix D.</p>
20	<p>GDPR – Data Retention (Corporate)</p> <p>This review confirmed the need for the Council to:</p> <ul style="list-style-type: none"> ▪ Implement a rigorous process for review of policies to ensure they remain accurate and reflective of operational activity; ▪ Align ROPAs, data retention schedules and Privacy notices to ensure a consistent approach is adopted and clear and accurate information is provided to the public;

	<ul style="list-style-type: none"> ▪ Ensure the ROPA is up to date and regularly reviewed; ▪ Each Directorate to ensure data held meets the agreed data retention schedules. <p>A full copy of this report is attached at Appendix E.</p>
21	<p>Commercial Directorate Procurement (Unplanned review)</p> <p>In addition to the planned reviews, Internal Audit also issued a report highlighting that there had been clear breaches of the governance framework resulting in a significant reputational risk and failure to adequately protect the Councils confidential data within the Commercial Directorate. Whilst many of the failings were due to activity within Chorley Council, South Ribble Council were also adversely affected albeit not to the same degree.</p> <p>Since this review was finalised, a multi-disciplinary Commercial Directorate Development Group has been established. The focus of the group is on developing and embedding a strong governance framework and a positive, supportive culture focused on high quality service delivery.</p>
22	<p>The remaining reviews all received either an adequate or substantial assurance rating. Senior Management have accepted all the findings of the reviews and management actions have been agreed to further improve the overall control environment.</p>
23	<p>In addition to the work carried out above, Internal Audit have also issued the following reports / provided assurance which do not include a formal assurance rating:</p> <ul style="list-style-type: none"> • Annual Governance Statement review to identify themes for inclusion in the AGS action plan; • COVID grant assurance returns for the Department for Business Energy and Industrial Strategy (BEIS); • National Fraud Initiative review of matches and co-ordination of the 2022 exercise.
24	<p>The Internal Audit Team and the Head of Service Audit and Risk have also participated in a number of corporate groups and initiatives throughout the year in order to provide support and advice on a variety of risk and control issues. These include:</p> <ul style="list-style-type: none"> • Membership of the Senior Leadership Team; • Member of the officer Corporate Governance Group; • Customer Services Transformation project; • Commercial Directorate major projects (as and when required); • Commercial Directorate Development Group. <p>Internal Audit also disseminate fraud alerts to relevant officers and manage accessibility to the National Anti-Fraud Network (NAFN).</p> <p>Full details of all the work undertaken is included at Appendix B – Summary of Internal Audit Work 2022-2023.</p>
25	<p>Due to the loss of key personnel within Planning and Development, it has been necessary to defer the review of Community Infrastructure Levy. This will be considered for inclusion in future Audit Plans once new officers are in post. The Internal Audit Plan also contained two reviews which are not yet finalised. The Vulnerability Management review will only commence in June 2023 and the ICT Support review is currently in progress. Both of these reviews were delayed as a result of the ICT Auditors non availability.</p>
26	<p>The table below provides a breakdown of assurance opinions issued by Internal Audit over the past 2 years for planned reviews. Due to COVID and the redeployment of auditors, we only have the past two years in which meaningful comparable data can be used. Moving forward, we will be in a position</p>

to measure over a longer period of time. It should also be noted that additional resource was allocated to Internal Audit in 21/22.

27 The table demonstrates a broadly consistent picture across the two years with similar number of assurance levels awarded at each level as:

Internal Audit Assurance Levels

Assurance Level	2021/22	%age	2022/23	%age
Full	0	0%	0	0%
Substantial	4	25%	3	23%
Adequate	8	50%	6	46%
Limited	4	25%	5	30%
Totals	16		13	

Follow up of Internal Audit Agreed Management Action

28 A rigorous monitoring system is in place to ensure all agreed management actions are implemented by adding the actions to the Council's risk management system GRACE. This allows action owners to update the system with progress made in a timely fashion and for monthly reports to be issued to Directors. Outstanding audit actions are now a standing item on all Directorate monthly meetings.

The table below sets out the number of agreed internal audit actions and their current status:

	Actions due by 31.3.23	Actions implemented	%age
SRBC	141	90	64%
Shared Services	57	46	80%

Whilst the target implementation rate of 90% has not been met, the outstanding actions have been reviewed and it has been established that the reasons are largely related to Commercial Directorate.

There were a number of key appointments within the organisation in recent months and Internal Audit are working closely with each new Head of Service to ensure that audit actions are reallocated to the appropriate responsible officer, the context of the audit report and actions arising are clearly understood and achievable realistic timescales for delivery are agreed.

Risk Management

29 Risk Management is the process by which risks are identified and evaluated so that appropriate mitigation can be applied to reduce the likelihood and impact of risks materialising. In the event a risk materialises, this could inhibit the Council to achieve its objectives and fulfil its strategic priorities.

30 As reported in 2022, the Council has taken steps to embed risk management processes, and the current arrangements include:

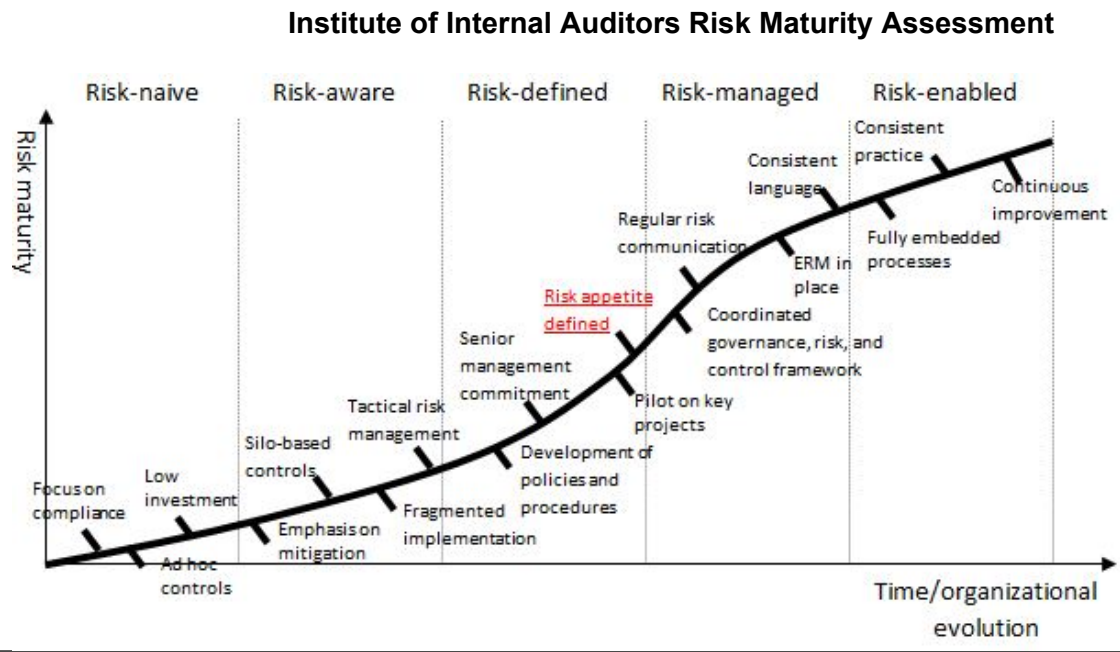
- Risk Management Strategy approved in 2021;
- Use of a dedicated risk management system;
- Individual officer training delivered as and when required;
- Risk Management training to all members of Senior Leadership Team;
- Dedicated risk management training for members;
- Mandatory risk management training for all members of staff through the corporate Learning Hub;

- Review of the Corporate Risk Register by the Senior Management Team and Governance Committee;
- Development of risk registers to capture risks and mitigations for a range of activities, including corporate strategy projects, business planning, partnerships and operational risks;
- Consideration of risk in all committee / Council reports;
- Risk management as a standing item on Directorate monthly meetings;
- Development of reports for the Officer Corporate Governance Group and Directors.

31 The Internal Audit opinion on the effectiveness of the Council’s Risk Management arrangements is based on the Chartered Institute of Internal Auditors’ Risk Maturity Model.

This review has concluded that the approach to risk management at a strategic level was effective, however there is still further work required within operational activity with some Services’ understanding of risk identification and management requires improvement. The Audit and Risk Service will continue to offer staff and services more risk management training in the future.

32 The table below shows that the Council’s risk management maturity is largely risk defined. In order to become risk managed, the Council needs to ensure work is undertaken to define its risk appetite, monitoring and reporting arrangements and embed risk management within all operational service areas.



Corporate Governance

33 The opinion of Internal Audit on the effectiveness of the Council’s corporate governance arrangements is based on CIPFA’s Delivering Good Governance in Local Government Framework 2016.

In order to support the compilation of the Annual Governance Statement Action Plan, a full review of the six principles contained within the guidance was undertaken. Actions arising from this review were presented and agreed with the Corporate Governance Group and are detailed in the Annual Governance Statement report.

34	Internal Audit Corporate Governance Assessment	
	CIPFA Principle	Internal Audit Assessment
	A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Adequate – whilst the Council is largely compliant with the requirements set out, the AGS contains an action to update the Council's Constitution.
	B. Ensuring openness and comprehensive stakeholder engagement.	Substantial – no key issues identified
	C. Defining outcomes in terms of sustainable economic, social, and environmental benefits	Substantial – no key issues identified
	D. Determining the interventions necessary to optimise the achievement of the intended outcomes	Substantial – no key issues identified
	E. Developing the entity's capacity, including the capability of its leadership and the individuals within it	Adequate – it has been recognized that there are some development needs for the Senior Leadership Team.
	F. Managing risks and performance through robust internal control and strong public financial management	Adequate – whilst there are some robust processes in place, evidence confirms that there are a number of processes where improvements are required.
	G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability	Substantial – no key issues identified

	Other Sources of Assurance	
35	Internal Audit has continued to consider other forms of assurance received by the Council. When preparing the audit plan and when undertaking individual reviews, we assess other sources of information available to us and assess them for the level of reliance which can be placed on them. Details of other sources of assurance are provided below:	
37	Health and Safety Health and Safety recently became a shared service and now has a stable team in place to support and advise the Council. Initially the team has prioritized ensuring training on first aid, fire wardens and manual handling is delivered to all relevant employees. In addition, the focus has been on the development of a shared Health and Safety framework to provide support and guidance for managers across both authorities. More recently, resource has been specifically targeted towards higher risk areas to ensure arrangements are robust and compliant with best practice.	
36	Insurance The Insurance Service have recently implemented a new automated claims management system. This is now allowing the Service to identify claim trends and report on the differing type of claims and costs	

	and improve our overall management of risk in relation to insurance claims. Reports are currently being developed for reporting to the Corporate Governance Group on a six monthly basis.
37	<p>Other assurance providers</p> <p>In formulating the overall opinion, other sources of assurance can be taken into account based on their findings and conclusions.</p> <p>Examples of other assurance provides can include (not an exhaustive list):</p> <ul style="list-style-type: none"> ▪ Work undertaken by External Audit including Housing Benefit Subsidy Claim; ▪ The work of specifically commissioned consultants; ▪ Section 11 Safeguarding review. <p>These assurances are also considered when developing the Internal Audit Plan.</p>
38	<p>South Ribble Leisure Limited ~Annual opinion</p> <p>The Internal Audit Service has also completed a range of reviews for Council's wholly owned company - South Ribble Leisure Limited. The assurance ratings and reviews have been formally reported to the Board of Directors. In addition, in consultation with the Board of Directors, Internal Audit have completed the checklist contained within the Local Partnership - Local Authority Company Review Guidance. South Ribble Leisure also have full access to the dedicated risk management system and are in the process of developing a full suite of risk registers.</p> <p>Whilst the formation of the wholly owned company is still relatively recent, evidence has confirmed that there is still work to do to fully embrace the Council's governance framework so that it becomes fully embedded.</p> <p>Based on the above, it is the view of the Head of Audit and Risk that the overall adequacy and effectiveness of the arrangements within South Ribble Leisure is adequate.</p>

Annual Opinion	
39	Based on the work undertaken and evidence available to Internal Audit including other sources of assurance, it is considered that the overall adequacy and effectiveness of the Council's governance, risk management and control processes are adequate for the financial year ended 31 st March 2023 except for the significant control weaknesses identified at paragraphs 17 to 21.

Public Sector Internal Audit Standards (PSIAS)	
40	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. This is included as a separate item on this agenda.
41	<p>The internal assessments include the following:</p> <ul style="list-style-type: none"> • An annual self-assessment of the effectiveness of the Internal Audit Service audit service using the PSIAS and Local Government Application Note. 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.
42	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 June 2023.
43	<p>The internal annual self-assessment has now been conducted and the results are included as a separate report on the agenda. This review confirmed that the Service largely conforms to the professional standards. Only one area for improvement has been identified. This was identified during the 2022 review however reasons beyond our control prevented this from being successfully progressed.</p> <p>Members will recall that the Internal Audit Service also successfully achieved the ISO9001 Quality Management System this year. This clearly demonstrates the commitment to improvement and ensuring that a high quality service is provided to both Councils.</p>

Internal Audit Performance	
44	The table at Appendix C summarises the key performance data for the Internal Audit Service during 2022-2023 and demonstrates that the majority of performance indicators have either been achieved or exceeded. There is only the one indicator, % of agreed actions implemented by management, which is below target with the explanation provided above.

Looking forward	
45	It is accepted that the past 12 months have been turbulent for the Commercial Directorate and a range of issues contained within the body of this report have been identified. It must also be acknowledged that the Internal Audit Service have identified good practice throughout the organisation.
46	The Council now has a new Chief Executive and a number of new Heads of Service which should bring further stability to the organisation.
47	Internal Audit would like to take this opportunity to formally thank all staff throughout the Council with whom the Service has had contact with. In what has been a difficult year, the Senior Management Team have responded positively to our findings and supported the Internal Audit Service.