

RIBBLE VALLEY BOROUGH COUNCIL

REPORT TO ACCOUNTS AND AUDIT COMMITTEE

meeting date: 29 JUNE 2022
title: ANNUAL INTERNAL AUDIT OPINION – 2021/22
submitted by: DIRECTOR OF RESOURCES
principal author: INTERNAL AUDIT MANAGER

1 PURPOSE

1.1. This report is intended to provide the Accounts & Audit Committee with:

- an independent opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control; including a summary of the internal audit work that supports the Opinion;
- any impairments or restrictions in scope of the work undertaken; and
- the outcomes of the self-assessment that the audit work undertaken is in conformance with the Public Sector Internal Audit Standards (PSIAS).

1.2 The report meets the requirements for the Internal Audit service to provide an annual report on the overall adequacy of the Council's framework of governance, risk management and control, as detailed in the PSIAS. It demonstrates that the Council is maintaining an adequate and effective system of internal control as required by the Accounts and Audit (England) Regulations 2015. This opinion will assist the Council in the completion of its Annual Governance Statement (AGS).

1.3 The Accounts & Audit Committee, in its role of providing independent assurance to the Council on the adequacy of its risk management framework, overall governance and associated control environment, is required to consider the Annual Internal Audit Opinion for 2021/22.

1.4 Relevance to the Council's ambitions and priorities:

- Corporate priorities – The Council seeks to maintain critical financial management and controls and provide efficient and effective services.
- Other considerations – the Council has a statutory duty to maintain an adequate and effective system of internal control.

2 KEY ISSUES

2.1 The basis for forming the opinion has considered:

- An assessment of the individual assurances arising from risk-based internal audit assignments that have been reported in the period.
- An assessment of the processes in place with regards governance and risk management.
- As assessment of the Council's response to internal audit recommendations and the extent to which they have been implemented.
- Other sources of assurance relevant during 2021/22 (e.g. inspections).

2.2 The Covid-19 pandemic continued to impact the Council throughout 2021/22 however the Internal Audit Service has continued to act as a critical friend throughout, providing key assurances across a range of service areas. Staffing issues within the Internal Audit Service remained throughout 2021/22, however the post of Internal Audit Manager (which had been vacant since January 2020) has now been recruited to. The Council therefore prioritised the fundamental systems work and commissioned further internal audit services to ensure appropriate coverage to form this opinion.

3 RISK ASSESSMENT

3.1 The approval of this report may have the following implications:

- Resources – there are no resource implications arising as a result of this report.
- Technical, Environmental and Legal – This report fulfills the statutory requirements placed upon by the council by the Accounts & Audit (England) Regulations 2015. This report is a key contributor to the Annual Governance Statement, which assesses the effectiveness of the Council’s own management of its objectives.
- Political – There are no political implications arising from this report.
- Reputation – There are no reputational implications arising from this report.
- Equality and Diversity – There are no equality or diversity implications arising as a result of this report.

4 CONCLUSION

4.1 The overall opinion for the period 1st April 2021 to 31st March 2022 is **Substantial Assurance** (“Substantial Assurance can be placed on the levels of control in operation”).

4.2 The Accounts & Audit Committee is asked to:

- Note the content of the Annual Internal Audit Opinion for 2021/22 (as set out in Appendix A);
- Consider the overall annual opinion of the Internal Audit Manager, which is that Substantial Assurance can be placed upon the Council’s framework of governance, risk management and internal control; and
- Note that the internal audit work that supports this opinion has been delivered in accordance with the Public Sector Internal Audit Standards (PSIAS) and that although there are no significant areas of non-conformance, an improvement plan is in place to ensure full compliance.

INTERNAL AUDIT MANAGER

DIRECTOR OF RESOURCES

AA12-22/RP/AC
21 June 2022

Annual Internal
Audit Opinion

2021/22



Ribble Valley
Borough Council

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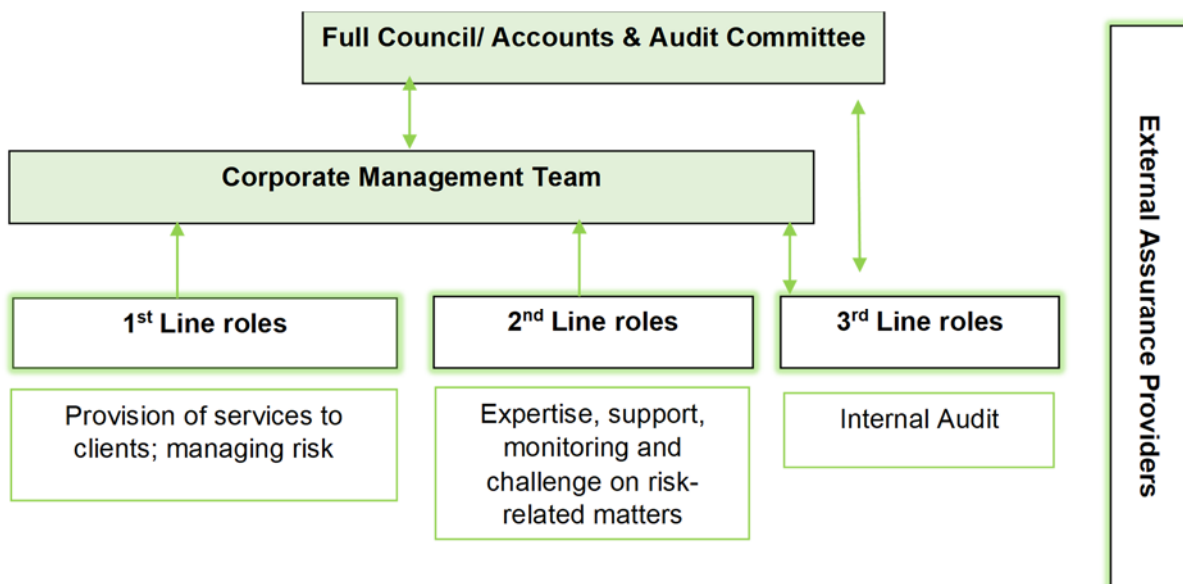
1. Introduction

This report is intended to provide the Accounts & Audit Committee with:

- an independent opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control; including a summary of the internal audit work that supports the Opinion;
- any impairments or restrictions in scope of the work undertaken; and
- the outcomes of the self-assessment that the audit work undertaken is in conformance with the Public Sector Internal Audit Standards (PSIAS).

This report meets the requirements for the Internal Audit service to provide an annual report on the overall adequacy of the Council's framework of governance, risk management and control, as detailed in the PSIAS (2450). It demonstrates that the Council is maintaining an adequate and effective system of internal control as required by the Accounts and Audit (England) Regulations 2015. This opinion will assist the Council in the completion of its Annual Governance Statement (AGS).

The Three Lines Model (as outlined by the Chartered Institute of Internal Auditors) provides clarity regarding risks and controls and helps improve the effectiveness of risk management systems. Internal Audit is considered the Council's 'third line role', in a model where the provision of services to clients and managing risk represents the first line, and functions that oversee, monitor and challenge compliance, the second line role. The model is illustrated in the table below:



2. Overall Opinion

In providing the overall opinion, consideration has been given to the assurance opinions provided during 2021/22 in respect of the Strategic Internal Audit Plan.

The assurance opinions reported to the Accounts & Audit Committee during 2021/22 have covered the categories of risk management, internal control and governance, and are detailed in Section 3.

The Covid-19 pandemic continued to impact the Council throughout 2021/22 however the Internal Audit Service has continued to act as a critical friend throughout, providing key assurances across a range of service areas. Staffing issues within the Internal Audit Service remained throughout 2021/22, however the post of Internal Audit Manager (which had been vacant since January 2020) has now been recruited to. The Council therefore commissioned further internal audit services to ensure appropriate coverage to form this opinion.

We would like to thank both staff and Members of the Accounts & Audit Committee for their ongoing support during the year.

Overall Opinion

Our overall opinion for the period 1st April 2021 to 31st March 2022 is:

Full Assurance – Full reliance can be placed on the levels of control in operation.	
Substantial Assurance – Substantial reliance can be placed on the levels of control in operation.	✓
Reasonable Assurance – Generally sound system of controls. Some weaknesses in control which need to be addressed.	
Limited Assurance – Only limited reliance can be placed on the arrangements/controls in operation. Significant control issues need to be resolved.	
No Assurance - System of control is weak, exposing the operation to the risk of significant error or unauthorised activity.	

The basis for forming our opinion is as follows:

- An assessment of the individual assurances arising from risk-based internal audit assignments that have been reported in the period.
- An assessment of the processes in place with regards governance and risk management.
- An assessment of the Council's response to internal audit recommendations and the extent to which they have been implemented.
- Other sources of assurance relevant during 2021/22 (e.g. inspections).

In addition to this opinion, the Council should take account of other independent assurances that are considered relevant. The outcomes of other self-assessment reports and external

assurance/ inspection reports received by the council have been considered, including (but not exclusive to):

- Director's Annual Assurance Statements
- Public Sector Network (PSN) Certification
- The External Auditor's Annual Audit letter and Value for Money statement
- Public Sector Internal Audit Standards Quality Assurance Improvement Programme (QAIP)

Head of Service, Directors and the Chief Executive are required to complete a statement of assurance each year regarding the governance arrangements, including risk management and internal control arrangements for their areas of responsibility as part of the process to produce the Council's Annual Governance Statement. Completed statements of assurance were received from all these officers. All directors confirmed that *"controls within their directorate have been, and are, working well. Other than matters highlighted, there are no significant matters arising that they are aware of which would require to be raised to help the preparation of the Annual Governance Statement"*. The points raised haven't affected this opinion.

Internal audit is an element of the internal control framework, assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures. However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses in the areas audited. We have reported all such weaknesses to management as they have become known to us, without undue delay, and have worked with management to develop proposals for remedial action.

The Internal Audit Service has self-assessed against the Public Sector Internal Audit Standards (PSIAS) and produced a detailed Quality Assurance Improvement Plan (QAIP) to be embedded throughout 2022/23; reporting to CMT and the Accounts & Audit Committee. The PSIAS state that an external assessment of the audit function and its conformance to the Standards must be carried out at least once every 5 years (1320). This has not taken place within timescales due the staff vacancies and the ongoing Covid-19 pandemic, so to ensure full conformance, the Internal Audit Manager has had initial conversations to initiate the external assessment throughout 2022/23. The outcomes of this assessment will be reported to the Corporate Management Team (CMT) and Accounts & Audit Committee.

Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities that may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Independence

The Internal Audit Service has access to and support from the Council's Corporate Leadership Team (CMT). In the course of its normal work it is able to operate independently within the organisation and in accordance with its Charter.

The Internal Audit Strategic Plan is determined in consultation with senior managers, CMT and the Accounts & Audit Committee. The Internal Audit Manager has line management responsibility for the Council Insurance team in addition to Internal Audit. However, internal audit staff had no direct operational responsibility or authority over any of the insurance activities audited in 2021/22. I can therefore confirm the organisational independence of the Internal Audit activity.

3. Coverage & Outputs

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

Governance and Risk Management

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), the Council has undertaken a self-assessment against the behaviours and actions to support the process and maintain robust governance arrangements throughout the year as part of the Local Code of Corporate Governance. The self-assessment utilised the 'Delivering Good Governance in Local Government Framework' and was presented to the Accounts & Audit Committee in September 2021. Work is ongoing to produce the self-assessment for the 2022/23 financial year and will be reported to the Accounts & Audit Committee in September 2022.

The Council has a Risk Management Policy in place outlining the roles and responsibilities for those charged with managing risk. Risk management processes are monitored and updated on a regular basis, with high risks reported to the Accounts & Audit Committee. The Strategy is being updated to reflect current practices and the processes to be adopted for the forthcoming migration of risk facilitation from Grace to Pentana. A risk-based internal audit review of risk management was in progress at the time of writing and will be reported accordingly as part of the final opinion.

Investigations

Whilst it is not the primary role of Internal Audit to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

The Council's Whistleblowing Policy provides a clear path for individuals to raise concerns of malpractice in any aspects of the Council's work, without the fear of recrimination or victimisation. The National Fraud Initiative (NFI) data matching exercise, undertaken on a bi-annual basis, was last carried out in 2020/21.

The arrangements for investigations take two strands. Benefit fraud is reported to the Department of Work & Pensions (DWP) and investigating and reporting on all instances of fraud and corruption within its local service arrangements. The second, an internal element,

is provided by the Council' Internal Audit Team. Within 2021/22, there was one internal referral made to the Internal Audit Service, which was subsequently investigated and closed within the period.

Risk Based Reviews

Internal Audit has completed and formally reported upon 12 assignments. The following individual assignments were issued:

Review	Assurance Opinion	Recommendations Raised			
		High	Medium	Low	Total
Council's IA Function					
Ribblesdale Pool	Reasonable	10	10	0	20
Health & Safety	Reasonable	11	5	0	16
Car Parking	Reasonable	11	3	0	14
Edisford 3G All Weather Pitches	Limited	11	0	0	11
MIAA					
Treasury Management	High	0	0	2	2
Accounts Receivable*	High	0	0	2	2
Council Tax	Substantial	0	1	0	1
National Non-Domestic Rates (NNDR)	Substantial	0	1	0	1
General Ledger	Substantial	0	3	0	3
Vehicle Maintenance*	Substantial	0	2	2	4
Accounts Payable*	Moderate	1	2	0	3
Grounds Maintenance	Moderate	1	3	0	4
Total		45	30	6	81

*assurance opinion has been agreed; awaiting detailed management responses.

All recommendations raised were accepted by management.

The reviews of Procurement, Payroll, Inventory, Housing Benefits, Amenity Cleansing, Civic Suite and Cash & Receipting were in progress at the time of writing. These will now contribute to the 2022/23 Opinion. Assurance opinions for the individual assignments undertaken by MIAA have been mapped to the assurance opinion definitions of the Council.

The coverage highlighted above has been reported to the Accounts and Audit Committee as part of the Progress reports provided throughout the year. The audit assignment element of this Opinion is limited to the scope and objectives of each individual review.

Follow Up

We have commenced a follow up review and can conclude that the Council has started to make reasonable progress with regards to the implementation of recommendations. The Internal Audit Service will continue to track outstanding actions to the Accounts & Audit Committee and will report the outcomes of the current exercise as part of the final opinion.

We have raised 81 recommendations as part of the reviews undertaken throughout 2021/22. Of these recommendations, 45 were considered high risk (in line with the Council and MIAA definitions).

As part of the follow up process we receive explanations for recommendations that have not been implemented, or not received at the time of the follow up. We have received appropriate explanations from management for those recommendations not implemented and consider the revised timescales reasonable.

4. Quality Service Indicators & Resources

Public Sector Internal Audit Standards (PSIAS) Self-Assessment

Internal audit work is governed by the Public Sector Internal Audit Standards (PSIAS). As detailed within the PSIAS, *“Internal Auditing 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”*; to which the Internal Audit Team have adopted.

The Internal Audit Service has self-assessed against the Public Sector Internal Audit Standards (PSIAS) and produced a detailed Quality Assurance Improvement Plan (QAIP) to be embedded throughout 2022/23. The PSIAS state that an external assessment of the audit function and its conformance to the Standards must be carried out at least once every 5 years. To ensure full conformance, the Internal Audit Manager will commission the external assessment throughout 2022/23 and report the outcomes to the Corporate Management Team (CMT) and Accounts & Audit Committee. The outcomes of the QAIP should also be considered by the Officers when forming the Annual Governance Statement (AGS).

Resources

Staffing issues continued throughout 2021/22 in respect of the internal audit service and service areas; however, the post of Internal Audit Manager was recruited to in May 2022. This impacted on audit coverage for the 2021/22 financial year, however the services of MIAA were sought to undertake several individual assignments. Priority was given to performing core system work to enable the opinion to be reached.

Both Head of Financial Services and newly appointed Internal Audit Manager are CCAB qualified. The Internal Audit team consists of a further two members of staff; both of which are working towards professional qualifications (CIPFA and AAT respectively).

Internal Audit Charter

The nature of the core internal auditing principles, objectives, scope and responsibilities of both the Internal Audit Service and auditees are set out in the Internal Audit Charter, which was approved by the Accounts & Audit Committee in April 2021.

Performance Indicators

It is important that the Internal Audit Service can demonstrate effective and efficient service delivery. The Internal Audit Manager has introduced several key performance indicators to demonstrate not only compliance with the PSIAS, but also the impact the audit work has on the organisation, reporting accordingly to the Accounts & Audit Committee. To support this, the Internal Audit Manager has issued Post Audit Evaluation Questionnaires to all audit sponsors within 2021/22, to obtain feedback on the professionalism, integrity and objectivity of the internal audit team. The results received have been positive, and this has been fed back to the team.