

## DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
SHARED HEAD OF INTERNAL AUDIT	AUDIT AND STANDARDS COMMITTEE	23 JULY 2020	8
<b>INTERNAL AUDIT ANNUAL REPORT 2019/20</b>			

### PUBLIC ITEM

This item is for consideration in the public part of the meeting.

### SUMMARY

The purpose of this report is to summarise the work undertaken by the Internal Audit Service during 2019/20 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.

The report also includes the summary of the performance of the Internal Audit Service and the results of the Quality Assurance and Improvement Programme.

### RECOMMENDATION

That the Committee notes the contents of the report.

### SUMMARY OF PREVIOUS DECISIONS

None.

### CORPORATE PRIORITIES

Spending your money in the most efficient way to achieve excellent services ( <b>Value for Money</b> )	✓
Delivering the services that customers expect of an excellent council ( <b>Clean and Green</b> )	✓
Working with all partners ( <b>Vibrant Economy</b> )	✓
To make sure Fylde continues to be one of the most desirable places to live ( <b>A Great Place to Live</b> )	✓
Promoting Fylde as a great destination to visit ( <b>A Great Place to Visit</b> )	✓

## THE ROLE OF INTERNAL AUDIT

1. 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 councils in meeting the requirements of the Accounts and Audit Regulations 2015.

## OVERALL OPINION

2. 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. This opinion is based upon the work undertaken by the Internal Audit Service throughout the year and external assurance providers. I can provide **MODERATE** assurance as detailed below:

**Internal Control** – During 2019/20, 14 reviews were completed, of these 71% were awarded either substantial or moderate assurance rating, however 4 reviews over the course of the year were awarded only limited assurance. Furthermore, a further 2 reviews were undertaken by external consultants and although not formally issued with an assurance rating, it is deemed that these areas did not display a strong level of internal control. There are some areas of notable strength with robust arrangements in place, whereby we were able to award a substantial assurance rating. Whilst there may be explanations for the reasons why only limited assurance can be awarded in the 4 instances, when all the outcomes from the reviews are aggregated, only moderate assurance can be placed on the internal control environment of the Council.

**Risk Management** – During 2019/20 the Council implemented the GRACE (Governance, Risk and Control Evaluation) risk management system in order to be able to record, monitor and report on risks facing the council in achieving its objectives. The development of the system is still in its infancy and although progress is being made, an independent review has confirmed that the current arrangements provide moderate assurance. During 20-21, it is the intention to further strengthen the arrangements by fully utilizing the suite of reports in order to provide support for Directors, Heads of Service and the Strategic Risk Management Group.

**Governance** – Overall the Council's governance framework is generally sound and has operated effectively, however the work of Internal Audit has identified some key areas of governance whereby the current arrangements could be strengthened. The Annual Governance Statement Action Plan contains actions to address these areas and it is imperative that these are implemented to ensure that the councils system of corporate governance incorporate the highest standards of practice.

## INTERNAL AUDIT SERVICE

3. Internal Audit has always strived to provide, quality, responsive, efficient and cost-effective service and pursues a policy of continuous improvement. Whilst its approach focuses on the extent to which managers have effective controls in place to mitigate their operational risks, audit work also specifically attempts to identify any opportunities for reduction in the level of controls in operation and to streamline processes.
4. The 2019/20 Audit Plan was produced with a focus on the significant areas of risk and showing where assurance on these risks can be obtained. This led to an enhanced approach towards the audit and particularly reporting by identifying the sources of assurances within the audit area and then commenting on the effectiveness of those sources. As a result, audit reports now provide information on a greater volume and breadth of assurance for senior management and the Audit and Standards Committee.
5. In addition, training was delivered to over 40 officers on the use of the GRACE and risks and controls are now being recorded, which formed the basis of the audit reviews undertaken during 19/20.

## INTERNAL AUDIT PLAN 2019/20 TIME ALLOCATIONS

6. **Appendix A** to this report provides a detailed account of the individual audits undertaken during 2019/20. A summary of any actions that have been agreed with management to further improve controls within all the areas audited is also included within the appendix.
7. The following table provides an analysis of the planned and actual auditor days used during the year together with an explanation of any variations that have occurred.

	Planned Days	Actual Days	Variance
Audits undertaken	300	334	34
Audits not undertaken:			
Data Sharing Protocols	15	0	(15)
Project Management	15	5	(10)
Contingency	75	84	9
TOTALS	405	423	18

8. The two reviews, highlighted above were not undertaken for the following reasons:

Data sharing protocols – this has been deferred to 20/21 to allow time for the actions highlighted in the GDPR review completed in February 2020 to be implemented. This review will then focus on one aspect of the regulations and how we share data with other agencies / organisations.

Project Management – it was identified in the Annual Governance Statement that further work was required to re-launch and provide training on the corporate Project Management Framework. As a result, this review has been deferred to 20/21.

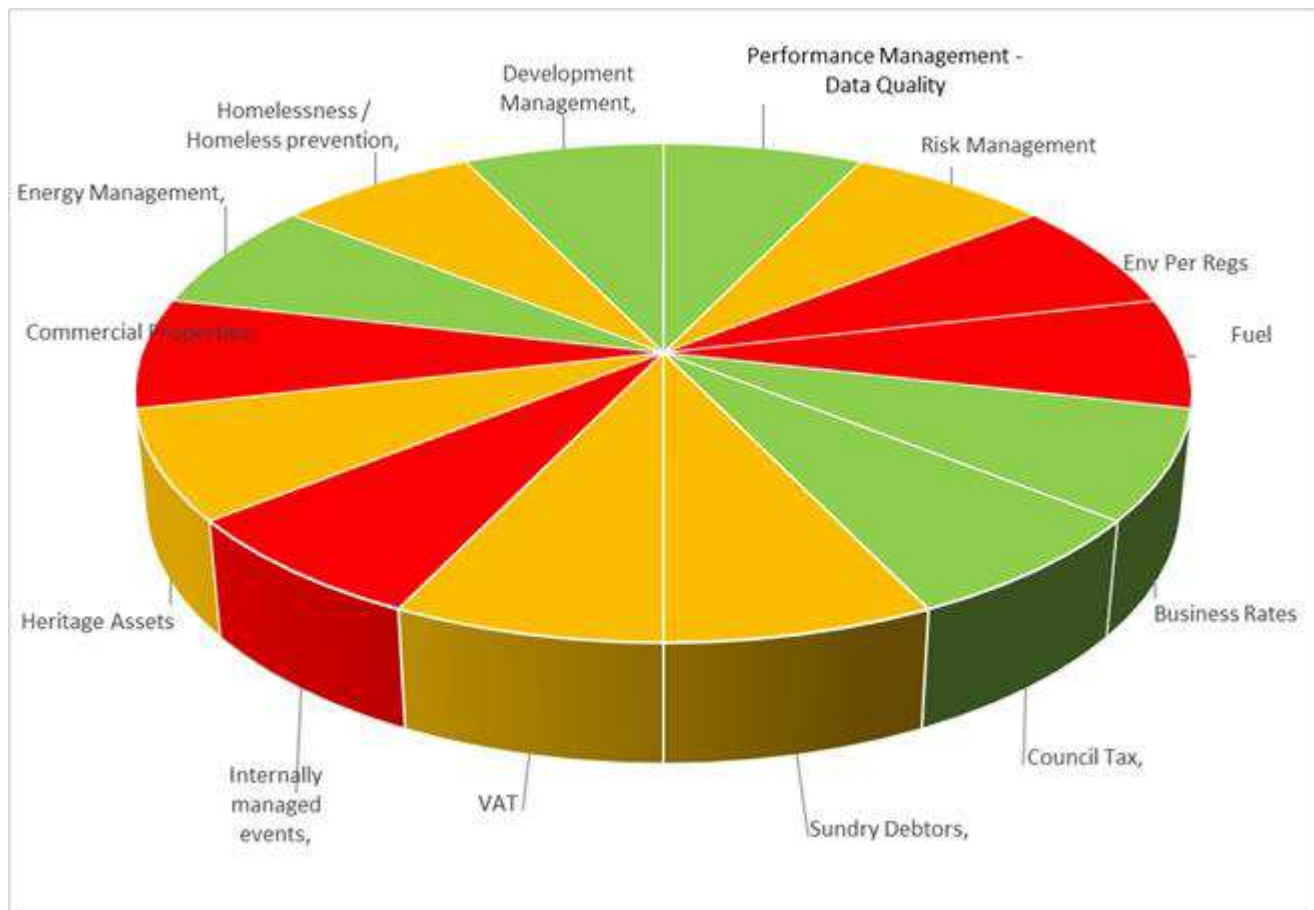
9. A number of reviews were in progress in quarter 4, however as a result of COVID 19, the Internal Audit Team were re-deployed onto the Business Support Grant team and as such, this work remains incomplete. This has been highlighted in the revised Internal Audit Plan 20/21 and will be reported to the Audit and Standards Committee in due course.

## INTERNAL AUDIT PLAN 2019/20

10. Members will be aware that each individual audit is awarded a separate controls assurance rating after the audit is completed to reflect the level of internal control that is present in each system / area. The table below shows the assurance ratings along with the definition for each:

Assurance Rating	Definition
<b>Full</b>	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives.
<b>Substantial</b>	While there is basically a sound system of control, there are some minor weaknesses, which may put some of the system objectives at risk.
<b>Moderate</b>	While there is basically a sound system of control, there are some more significant/serious weaknesses, which may put some of the system objectives at risk.
<b>Limited/None</b>	There are significant weaknesses in key areas in the systems of control, which put the system objectives at risk and leaves the system open to significant error or abuse

11. A total of 14 systems / areas were reviewed in accordance with the plan. The chart below shows the controls assurance ratings that were awarded for the individual audits undertaken during the year:



12. As highlighted above of the 14 reviews completed, 10 were awarded either a substantial or moderate assurance rating with 4 being awarded a limited assurance rating. A further 2 reviews (not awarded an assurance rating) have also raised concerns regarding the findings.
13. The findings of these reviews have been assessed by the Corporate Governance Group and the reasons for the increase in the number of reviews being awarded a limited rating were considered to be twofold as reported to the Committee in January 2020:
  - With the exception of the Fuel Consumption review, the remaining 3 reviews – Internally Managed Events, Environment Regulations and Commercial Property have not been subject to audit review previously and
  - Revised audit methodology has been used which involves both the auditor and the manager identifying the key risks and controls facing the service. These are then recorded on GRACE and allows for continuous self-assessment by the manager following the audit process.
14. In addition to the reviews detailed above, we have played an active role in the project teams of two major projects, the Coastal Defence Project and the Fairhaven Lake Project enabling the Internal Audit team to provide advice and guidance in relation to governance, control and risk in real time.
15. Members are also reminded that the control ratings shown relate to the point in time when the respective audit reports were issued during the course of the year. They therefore represent a historical rather than a current judgement as managers have been charged with implementing corrective actions to address the controls issues raised which in turn is supported by management confirmation that actions have been implemented.

## MANAGEMENT'S RESPONSES TO OUR FINDINGS

16. For all the reviews completed to date, a 100% agreement rate has been achieved. All agreed actions contained within the reports have been accepted and will be followed up to ensure implementation and will

be reported on at a future meeting of this committee. In total, 40 actions have been agreed for the reports issued with a limited assurance rating.

17. It was agreed with members that an update would be provided on any reports issued with a limited assurance rating, however, this has been discussed with the Chair of the Audit and Standards Committee and the conclusion reached that in the current climate and working arrangements the Council is facing, it is not feasible to ask managers about the implementation of agreed actions. As soon as it is practicable to do so, we will be seeking an update and will provide a detailed report to Committee in November 2020.

#### INTERNAL AUDIT PERFORMANCE

18. **Appendix B** provides information on Internal Audit performance for the 2019/20 Internal Audit Plan. We are pleased to report that our performance indicators have been exceeded with the exception of:

- Percentage of Audit Plan completed. This is due to the reviews which were incomplete at the end of the year and the reviews deferred due to pandemic.

#### Customer Satisfaction

19. Customers are asked to complete a satisfaction survey as each final report is issued. Last year we were able to report an upward trend with this indicator and this has continued during 19/20 as detailed in the table below:

Year	Target	Actual	Comments
2019/20	90%	97%	Target exceeded
2018 / 19	90%	94%	Target exceeded
2017/ 18			Performance indicator not collated
2016/17	90%	90.4%	Target achieved

#### QUALITY AND IMPROVEMENT ASSURANCE PROGRAMME

20. The PSIAS came into force from 1 April 2013 and the annual review of effectiveness of Internal Audit is now demonstrated through a self-assessment against these standards. At least once every five years, however, some external independent input into the assessment is required and in December 2016 a Peer Review team provided external validation of the self-assessment.
21. The Corporate Governance Group has reviewed and challenged the self-assessment and concluded that the Internal Audit Service effectively demonstrates conformance with the Standards and there have been no instances of non-conformance. The self-assessment is contained in a separate report on this agenda.
22. This self-assessment has identified two areas of improvement for the Internal Audit Service and details are included on the action plan at **Appendix C**. Progress is currently being made with both actions and it is anticipated that they will be fully completed by September 2020.

IMPLICATIONS	
Finance	None arising from this report
Legal	There are no legal implications arising from this report, however the provision of an Internal Audit Service is a requirement of the Accounts and Audit Regulations 2015
Community Safety	None arising from this report
Human Rights and Equalities	None arising from this report
Sustainability and Environmental Impact	None arising from this report
Health & Safety and Risk Management	This report supports the Audit and Standards Committee in undertaking it's role which includes providing independent oversight of the adequacy of the council's framework of governance , risk and control

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BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
2019/20 Internal Audit Plan	March 2019	Audit office, Town Hall

Attached documents

Appendix A – Summary of Audit Work

Appendix B – Internal Audit Performance Indicators

Appendix C – PSIAS Action Plan 2020