



# Internal Audit Annual Report & Head of Internal Audit Opinion 2020/21

Prepared on behalf of Fylde Borough Council

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## 1 Foreword and context

The impact of COVID-19 on all public services has been considerable and for internal auditors it has raised the question of whether they will be able to undertake sufficient internal audit work to gain assurance during 2020/21. This is a key consideration to fulfil the requirements of the Public Sector Internal Audit Standards (PSIAS) for the Head of Internal Audit (HIA) to issue an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This opinion is in turn one of the sources of assurance that you rely on for your annual governance statement.

Whilst the considerable challenges and pressures you have faced this year are fully recognised, the professional and regulatory expectations on public sector organisations to ensure that their internal audit arrangements conform with the PSIAS have not changed. Recognising the impact of COVID-19 on all public services, CIPFA provided guidance in November 2020 to address the risk of a limitations of scope for the Head of Internal Audit where it has not been possible to achieve sufficient assurance in conformance with the PSIAS.

In addition to the COVID-19 pressures faced in the year the Head of Internal Audit left the Council in February 2021. There was a member of the internal audit team in post and the Director of Resources acted as the Chief Audit Executive until the appointment of MIAA on 15 March 2021 to fulfil the Head of Internal Audit role. MIAA have been appointed to provide internal audit services for 2021/22 and were requested to support the Council in providing a Head of Internal Audit Opinion for 2020/21.

Individual audit reviews included within this opinion have been completed by staff from Fylde Council and MIAA under a separate contract for two technology risk assurance reviews. The Council has a shared Corporate Fraud Team with Preston City Council and there is regular reporting on the Team's work to the Audit and Standards Committee.

During 2020/21 MIAA had an independent External Quality Assessment undertaken by CIPFA which concluded that we fully complied with all aspects of the PSIAS. For 2020/21 it has been confirmed to us that Fylde Council staff operated in line with the PSIAS in delivering their work.

Due to the impact of COVID-19 and government restrictions introduced from March 2020 internal audit reviews were carried out remotely.

**This Opinion has been provided by MIAA on behalf of Fylde Borough Council.**

We would like to take this opportunity to thank the Audit & Standards Committee and all the staff at the Council for their support during the time we have been working with you.

*Steve Connor*

Managing Director, MIAA

On behalf of Fylde Borough Council  
June 2021

## 2 Executive Summary

The purpose of this Head of Internal Audit Opinion (HOIAO) is to contribute to the assurances available to the Accountable Officer and the Council which underpin the organisation’s own assessment of the effectiveness of the organisation’s system of internal control. **MIAA has produced this opinion on behalf of the Council** to assist the Council in the completion of its Annual Governance Statement (AGS).

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

This annual report has been produced by MIAA on behalf of the Council and provides the 2020/21 Head of Internal Audit Opinion for Fylde Borough Council, together with the planned internal audit coverage and outputs during 2020/21.

Key Area	Summary
<p><b>Head of Internal Audit Opinion &amp; the Role of Internal Audit During the Pandemic</b></p>	<p>The HOIAO on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control is moderate, 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>The Head of Internal Audit has obtained insufficient assurance across a significant subset of risk or areas of operation that are material.</p> <p><b>Limitations to the scope</b></p> <p>The HOIAO opinion however excludes, main accounting, housing benefits, council tax and business rates, third party assurance from external providers and key financial systems as there is insufficient assurance available for the HOIAO to offer reasonable assurance.</p> <p>The limitations of scope have arisen because Council internal audit staff have been redeployed to meet critical business needs. In addition, management made the decision to use available staff to address the priorities arising from the pandemic and avoid placing additional demands on staff to complete internal audits.</p> <p>To avoid similar limitations in future, the Council has increased internal audit capacity and strengthened its resilience by procuring MIAA to provide the internal audit service and deliver a risk based plan during 2021/22 to fulfil the requirements of the PSIAS. Gaps in audit coverage in 2020/21 have been considered as part of the 2021/22 risk assessment and planning process.</p> <p>In addition, the Council senior leadership team has committed to ensure staff are available to support internal audit to complete sufficient work to provide an opinion. There will be regular reporting and monitoring to senior management and the Audit and Standards Committee to ensure the achievement of the plan is on track. This action is recorded in the Corporate Governance Action Plan.</p> <p><b>MIAA has supported Fylde BC to provide this opinion on behalf of the organisation in full compliance with the PSIAS.</b></p>

<p><b>Internal Audit Coverage and Outputs (including reliance on other assurance providers)</b></p>	<p>A revised risk based 2020/21 Internal Audit Plan was approved by the Audit and Standards Committee in July 2020 with the focus on the provision of your Head of Internal Audit Opinion. Recognising the continued impact of COVID-19 on the organisation a further risk based revised approach was agreed at the Committee meeting in November 2020. It has not been possible to deliver the revised plan and achieve sufficient assurance across a significant subset of areas of operation that are material and this has resulted in a limitation of scope opinion.</p> <p>The Internal Audit Standards Advisory Board (IASAB) issued guidance regarding conformance with the Public Sector Internal Audit Standards (PSIAS) during the coronavirus pandemic (May 2020). The IASAB recognised that during 2020/21 Internal Audit would fulfil its mission in a different way and that evidence supporting the overall audit opinion is different to what would be expected under normal circumstances. As part of our assessment of the HOIAO we took account of the following:</p> <ul style="list-style-type: none"> <li>• Internal audit work completed in year by the in-house team</li> <li>• Other sources of assurance including external audit conclusions from the 2019/20 audit of accounts; internal audit assignments completed by MIAA and completion of Governance Assurance Statements by Heads of Service in May 2021</li> <li>• Cumulative audit knowledge and experience of the former Head of Internal Audit shared with us</li> <li>• Self-assessment against the CIPFA Solace Framework reported to the Audit and Standards Committee in July 2020</li> <li>• Progress with implementing the corporate governance action plan and with implementing recommendations from audit reports containing limited opinion assessment</li> <li>• Operation of high level risk management controls during 2020/21 including action taken to implement recommendations from the review of risk management in 2019/20</li> <li>• Agreement of pre and post assurance plans for each Government COVID-19 business grant</li> </ul> <p>Other than specific work on follow up and MIAA completed reviews we have not tested the other sources of assurance referenced above.</p> <p>Therefore, review coverage has been focused on:</p> <ul style="list-style-type: none"> <li>• The organisation’s Assurance Framework</li> <li>• Core reviews, including follow up</li> <li>• A range of individual risk based assurance reviews</li> </ul> <p><i>Please include the summary text in the table above when referring to the Head of Internal Audit Opinion in your Annual Governance Statement.</i></p>
<p><b>Quality of Service Indicators</b></p>	<p>The Council’s Head of Internal Audit completed a self-assessment against the PSIAS in June 2020 and reported overall compliance with the PSIAS to the Audit and Standards Committee. There were two actions arising from the self-assessment where action is underway.</p>

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	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.
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### 3 Head of Internal Audit Opinion

#### 3.1 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 Accountable Officer, on behalf of the Council, setting out:

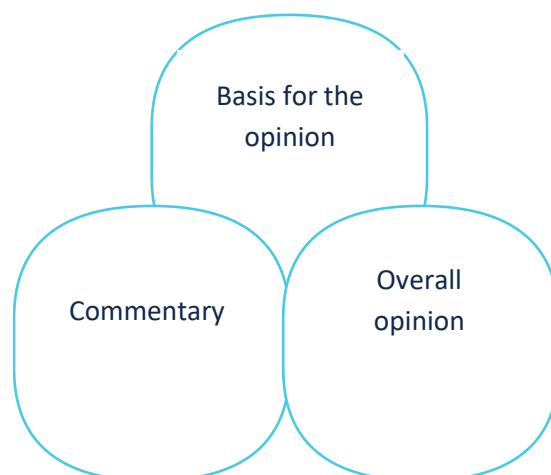
- how the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievements of policies, aims and objectives;
- the purpose of the system of internal control as evidenced by a description of the risk management and review processes; 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 (HIA) 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 Audit & Standards 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 3.

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 the Council’s in-house internal audit team and MIAA. Section 5 details the internal audit coverage.

#### 3.2 Opinion

Our opinion is set out as follows:



3.2.1 Basis

The basis for forming our opinion is as follows:

Basis for the opinion

- 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 the risk-based internal audit assignments that have been reported throughout the period; undertaken by both the in-house Internal Audit Team and MIAA. 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.

3.2.2 Overall Opinion

Our overall opinion provided on behalf of Fylde Borough Council for the period 1<sup>st</sup> April 2020 to 31<sup>st</sup> March 2021 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.	
<p><b>Moderate Assurance</b>, 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.</p> <p>The Head of Internal Audit has obtained insufficient assurance across a significant subset of risk or areas of operation that are material.</p> <p>Limitations to the scope</p> <p>The opinion however excludes, main accounting, housing benefits, council tax and business rates, third party assurance from external providers and key financial systems as there is insufficient assurance available for the HOIAO to offer reasonable assurance</p>	✓
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.	



### 3.3.3 Commentary

The commentary below provides the context for the opinion provided on behalf of the council and together with the opinion, should be read in its entirety.

The opinion covers the period 1<sup>st</sup> April 2020 to 31<sup>st</sup> March 2021 inclusive and is underpinned by the work conducted through the risk based internal audit plan.

## Assurance Framework

The Council approved a revised Risk Management Strategy in September 2020 to reflect the changes in arrangements and the implementation of the GRACE (Governance, Risk and Control Evaluation) system in 2019/20. The Council will need to update the Risk Management Strategy to reflect the change in role of the Head of Internal Audit and the new lead Risk Officer. Our work has been limited to:

- Assessing progress with implementing the recommendations from the independent review of risk management that was completed in 2019/20 and provided moderate assurance.
- Confirming that the Strategic Risk Management Group has met during the year and that there is a strategic risk register in place.

Work is ongoing to embed risk management across the Council , including providing support to Heads of Service to fully utilise GRACE and this will be an area of focus for our review of risk management in 2021/22.

The Council updated the Code of Corporate Governance in the year and this was approved by the Audit and Standards Committee in September 2020. Action has been taken to address a number of areas requiring action from the 2019/20 Corporate Governance Action Plan. The Corporate Governance Action Plan has also been updated with new issues identified during the year. The Corporate Governance Group will continue to monitor progress with implementing actions during 2021/22.

## Core & Risk Based Reviews Issued

The following opinions were issued by the Fylde Borough Council In- house Team (FBC) and MIAA. Four of these reviews were from the 2019/20 Internal Audit Plan but were not reported as part of the 2019/20 Head of Internal Audit Opinion. The audit assignment element of the Opinion is limited to the scope and objectives of each of the individual reviews

1 <b>full</b> assurance opinion:	Lytham Hall Driveway – FBC
5 <b>substantial</b> assurance opinions:	Contracts Procurement Rules - FBC (2019/20) Development Management – FBC (2019/20) Car Parking – FBC Express Election System – MIAA User Privilege Access Management – MIAA (2019/20)
1 <b>moderate</b> assurance opinion:	Payroll – FBC (2019/20)
1 <b>limited</b> assurance opinion:	Equipment Inventory - FBC

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0 no assurance opinions:	N/A
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## Follow Up

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We have undertaken a follow up review of progress with recommendations relating to limited opinion reviews and can conclude that the organisation has made **limited** with regards to the implementation of recommendations. We will continue to track and follow up outstanding actions.

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In total have **42** recommendations were raised as part of the reviews undertaken or reported during 2020/21. All recommendations raised have been accepted by management.

Fylde Borough Council internal audit team did not prioritise recommendations. Of the recommendations raised by MIAA none were rated as critical and or high risk recommendations

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In providing this opinion on behalf of Fylde Borough Council, I can confirm MIAA's 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.

*Steve Connor*

Managing Director, MIAA

On behalf of Fylde Borough Council  
June 2021

## 4 Internal Audit Coverage and Outputs

The majority of reviews from the 2020/21 Internal Audit Plan have been delivered by the Council's in-house Internal Audit function, with the focus on the provision of your Head of Internal Audit Opinion. This position has been reported within the progress report in November 2020.

Of the reviews completed in the year, assurance ratings were given in eight cases. Four of these reviews were from the 2019/20 Internal Audit Plan but were not reported as part of the 2019/20 Head of Internal Audit Opinion. 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 & Standards Committee Progress Reports throughout the year.

A summary of the reviews performed in the year is provided below:

	Review	Assurance Opinion	Recommendations Raised				Total
			Critical	High	Medium	Low	
Council's IA Function							
1	Payroll (2019/20)	Moderate					8*
2	Contracts Procurement Rules (2019/20)	Substantial					5*
3	Development Management (2019/20)	Substantial					6*
4	Car Parking	Substantial					5*
5	Equipment Inventory	Limited					9*
6	Lytham Hall Driveway	Full					0
MIAA							
7	Express Election System	Substantial			4		4
8	User Privilege Access Management (2019/20)	Substantial			4	1	5
		TOTAL					42

\* *The recommendations raised as part of this review were not risk rated.*

All recommendations raised were accepted by management. We will continue to follow up progress against all recommendations as part of the 2021/22 Internal Audit Plan.

## 5 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 Governing Body when drafting the AGS. Whilst the scope of the Internal Audit Plan would have considered elements of these, it is important that the CCG 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.
- Continued establishment and delivery of cross-organisation arrangements for the Better Care Fund and other pooled budgets development (e.g. Education, Lancashire County Council)
- 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. Blackpool Council).

## 6 Ensuring Quality

### 6.1 Professional Standards and Accreditations

#### In-house Internal Audit Function

The Council’s Internal Audit Service operated between the 1st April 2020 and 31 March 2021. The Head of Internal Audit completed a self-assessment against the PSIAS in June 2020 and reported overall compliance with the PSIAS to the Audit and Standards Committee. There were two actions arising from the self-assessment.

#### MIAA

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.

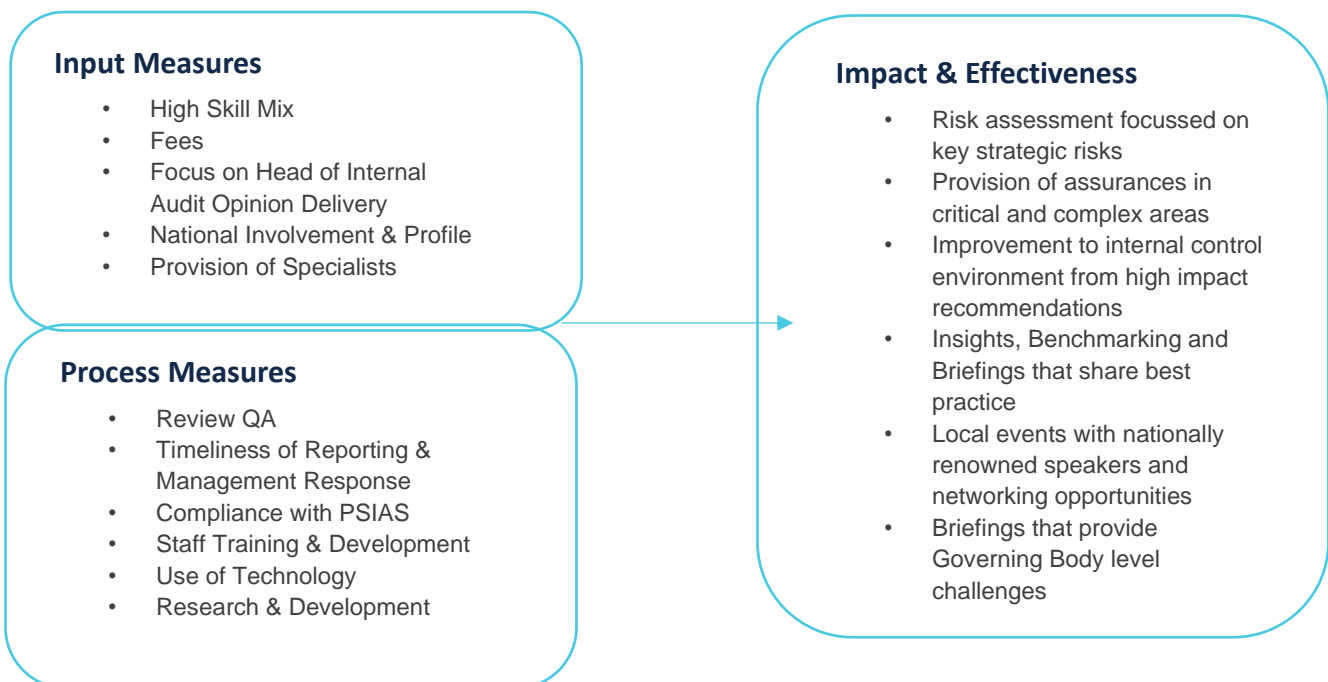
MIAA comply fully with professional best practice, internal audit standards and legal requirements. We assess our compliance with the Public Sector Internal Audit Standards (PSIAS) each year.

### 6.2 Service delivery and outcome measures

The Council internal audit team has agreed a number of quality assurance indicators and reports these to the Accounts and Audit Committee, including audit resource and delivered audits.

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 MIAA believe demonstrate an effective service to you.



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