



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 9 JUNE 2021
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**

2. **Appointment of Vice-Chair**

To appoint a Vice-Chair for the 2021/22 municipal year (the Vice-Chair must not be a member of Cabinet or Overview and Scrutiny)

3. **Minutes**

Minutes of meeting held on 24th March 2021 (previously circulated).

4. **Items of Urgent Business authorised by the Chair**

5. **Declarations of Interest**

To receive declarations by Councillors of interests in respect of items on this Agenda.

Councillors are reminded that, in accordance with the Localism Act 2011, they are required to declare any disclosable pecuniary interests which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting).

Whilst not a legal requirement, in accordance with Council Procedure Rule 9 and in the interests of clarity and transparency, Councillors should declare any disclosable pecuniary interests which they have already declared in the Register, at this point in the meeting.

In accordance with Part B Section 2 of the Code Of Conduct, Councillors are required to declare the existence and nature of any other interests as defined in paragraphs 8(1) or 9(2) of the Code of Conduct.

6. **Review of Internal Audit Effectiveness** (Pages 4 - 53)

Report of the Principal Auditor

7. **Internal Audit Annual Report 2020/21** (Pages 54 - 69)

Report of the outgoing Internal Audit and Assurance Manager

8. **Counter Fraud - Annual Report 2020/21** (Pages 70 - 74)

Report of the Corporate Fraud Manager.

9. **Statement of Accounts update** (Pages 75 - 78)

Report of the Chief Finance Officer (This report was marked to follow and was published on Tuesday 8th June 2021)

10. **Exclusion of the Press and Public**

The Committee is recommended to pass the following recommendations in relation to the following items:-

“That, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business, on the grounds that it could involve the possible disclosure of exempt information, as defined in paragraph 1, 2, 4, 8 and 10 of Schedule 12A of that Act.”

Members are reminded that, whilst the following item has been marked as exempt, it is for Committee itself to decide whether or not to consider it in private or in public. In making the decision, Members should consider the relevant paragraph of Schedule 12A of the Local Government Act 1972, and also whether the public interest in maintaining the exemption outweighs the public interest in disclosing the information. In considering their discretion Members should also be mindful of the advice of Council Officers.

11. **Future Provision of Internal Audit**

Report of the Director of Corporate Services (This report which was marked to follow will be an oral presentation by the Director of Corporate Services)

12. **HR Assurance Report** (Pages 79 - 106)

Report of the Director of Corporate Services (This report was marked to follow and was published on Wednesday 9th June 2021)

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Paul Stubbins (Chair), Abbott Bryning, Darren Clifford, Geoff Knight, Oliver Robinson and David Whitworth and 1 Conservative Vacancy.

(ii) Substitute Membership

Councillors Jason Firth (Substitute), Stewart Scothern (Substitute), David Whitaker (Substitute), Jason Wood (Substitute) and Joanna Young (Substitute)

(iii) Queries regarding this Agenda

Please contact Sarah Moorghen, Democratic Services - email smoorghen@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Democratic Support, telephone 582170, or alternatively email democracy@lancaster.gov.uk.

KIERAN KEANE,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER, LA1 1PJ

Published on 1st June 2021.

AUDIT COMMITTEE**Review of Internal Audit Effectiveness****09 June 2021****Report of the Principal Auditor****PURPOSE OF REPORT**

To inform the Committee of the requirement for the authority to undertake an annual review of the effectiveness of the system of Internal Audit and to report the results of this review.

This report is public

RECOMMENDATIONS

- 1. That Committee is asked to consider the results of the June 2021 review of the effectiveness of Internal Audit detailed in Appendix A.**

1.0 Introduction

- 1.1 The Accounts and Audit Regulations 2015 requires the relevant body, at least once a year, to conduct a review of the effectiveness of its system of internal audit. The purpose behind this is to ensure that the opinion in the annual audit report issued by the Internal Audit and Assurance Manager can be relied upon as a key source of evidence in the Annual Governance Statement.
- 1.2 From the 1 April 2013 Public Sector Internal Audit Standards (PSIAS) replaced the Code of Practice for Internal Audit in Local Government. In Local Government these standards are mandatory for all principal local authorities subject to the Accounts and Audit Regulations 2015. The PSIAS were re-issued in March 2017 with minor amendments.
- 1.3 To accompany the PSIAS an 'application note' has been produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) to give guidance on applying the standards. However, the application note is no longer simply guidance but constitutes 'proper practices' alongside the PSIAS and it includes a checklist for measuring the performance of Internal Audit against the standards as part of the quality assurance and improvement programme. The application note was re-issued in February 2019 with minor amendments.
- 1.4 The PSIAS state that an external assessment must be conducted at least every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessment can be in the form of a full external assessment, or a self-assessment with independent external validation. A decision was made by the majority of the Lancashire Districts to continue with the annual self-assessment completed by the CAE and for that annual self-assessment to be independently verified via peer review. Lancaster's peer review took place in March 2018 and was submitted to the Audit Committee in May 2018 to consider the recommendations made by the

peer review assessment team. Until the next round of peer reviews in 2023, annual self-assessments need to be carried out.

2.0 Proposal Details

- 2.1 The Principal Auditor has assessed the effectiveness of the internal audit service during the period 1 April to 31 March 2021 using the recommended checklist contained with CIPFA’s Local Government Application Note. This has been subsequently scrutinised by the Financial Services Manager (Section 151 Officer)
- 2.3 The results of this review are attached at Appendix A. The areas of ‘partial’ compliance in relation to risk management have been documented in more detail in the Annual Audit Opinion, therefor a separate action plan has not been formulated.

3.0 Details of consultation

- 3.1 No specific consultation has been undertaken in compiling this report.

4.0 Options and options analysis (including risk assessment)

- 4.1 No alternative options were identified. The need to carry out an annual review of the effectivities of internal audit is a statutory requirement.

5.0 Conclusion

- 5.1 The Principal Auditor has assessed the effectiveness of the internal audit service using the recommended checklist contained within CIPFA’s Local Government Application Note. This has subsequently been scrutinised by the Financial Services Manager (Section 151 Officer).
- 5.2 The results of the review are attached at Appendix A.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>This report has no direct impact on these areas.</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None arising directly from this report.</p>	
<p>SECTION 151 OFFICER’S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments.</p>	
<p>LEGAL IMPLICATIONS</p> <p>None arising directly from this report.</p>	
<p>MONITORING OFFICER’S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments.</p>	
<p>BACKGROUND PAPERS</p> <p>Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector</p> <p>CIPFA – Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards</p>	<p>Contact Officer: Dawn Allen</p> <p>Telephone: N/A</p> <p>E-mail: N/A</p> <p>Ref:</p>

Questions to consider		Evidence / comments
1 Mission of Internal Audit		
Based on your review of conformance with other requirements of the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), does the internal audit activity aspire to accomplish the Mission of Internal Audit as set out in the PSIAS?		The mission of Internal Audit is clearly documented in the Audit Charter. This is reviewed annually by the Audit Committee and was last reviewed/approved February 2021.
<i>To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.</i>		
CONFORMS ✓	PARTIAL	NOT CONFORMING
Questions to consider		Evidence / comments
2 Definition of Internal Auditing		
Based on your review of conformance with other requirements of the PSIAS and LGAN, is the internal audit activity independent and objective?		An Audit Charter is in place that sets out Internal Audit's independence. This is also documented in the Internal Auditor and Assurance Managers (IAAM) and Principal Auditor's job descriptions. As internal audit is currently responsible for the council's risk management arrangements, the council will use independent auditors to provide assurance that controls are adequate and effective if required. Audit are required from time to time to get involved / give advice on new systems / new controls etc. Due to the size of the team, it may be that the same auditor will then have to perform the audit. The auditor is, however mindful of their independence and has the option to call in external resources if necessary. It is a requirement of both IIA and CIPFA for its members to be both independent and objective. Objectivity is one of the four fundamental principles listed in the Internal Audit Charter / Code of Ethics. All reports are reviewed by the IAAM (CAE) prior to issue to ensure that the auditor has remained objective and that an overall balanced view is given.
CONFORMS ✓	PARTIAL	NOT CONFORMING

<p>Based on your review of conformance with other requirements of the PSIAS and LGAN, does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?</p>	<p>There is a standard methodology in place for determining the ranking of opinions and rankings of findings / recommendations in audit reports.</p> <p>RISK / Control matrices are used to identify key areas prior to the start of each audit.</p> <p>The council has recently updated and approved a risk management policy. In January 2020 the council procured some risk management software (Grace) and as at the 31 March 2021 was in the process of populating the system with the council's operational risks prior to rolling this system out across the council.</p> <p>The internal audit team use standardised working papers and audit report templates.</p>		
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	

Questions to consider	Evidence / comments	
<p>3 Core Principles</p>		
<p>The Core Principles, taken as a whole, articulate internal audit effectiveness, and provide a basis for considering whether the review of conformance with the attribute standards and performance standards reflects full conformance, partial conformance or non-conformance with the PSIAS and the Local Government Application Note. In making this assessment, the assessor should have regard to positive evidence of conformance or non-conformance and the lack of evidence of non- conformance where positive evidence is difficult to obtain.</p>		
<p>Where there are instances of partial conformance or non-conformance in particular areas, you may need to make a judgment having regard to materiality and other factors in order to form a view on whether the internal audit activity conforms with a particular Core Principle. Any such judgments should be highlighted and explained.</p>		
<p>Demonstrates integrity.</p>		
<p>Having regard to your review of conformance with the Code of Ethics (Integrity, Seven Principles of Public Life), do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating integrity?</p>	<p>CONFORMS ✓</p>	<p>PARTIAL</p>
		<p>NOT CONFORMING</p>
	<p>Auditors are bound by their ethical standards both in the internal audit Charter / Code of Ethics and with their own professional bodies, i.e. CIPFA / IIA.</p> <p>Elements such as these are a requirement of the role and, as such, are referred to in job descriptions and are reviewed quarterly via the council's performance appraisal process.</p> <p>Auditors are required to complete an annual declaration of interests.</p> <p>Auditors are bound by their professional and ethical standards and the Code of Ethics within the Internal Audit Charter.</p> <p>In addition to being bound by professional and ethical standards and the Code of Ethics within the Internal Audit Charter, internal audit also complies with the council's Employee Code of Conduct Policy.</p>	

Questions to consider		Evidence / comments
Demonstrates competence and due professional care.		
Having regard to your review of conformance with the Code of Ethics (Competence, Confidentiality, Seven Principles of Public Life) and any other evidence from the review of conformance with Standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating competence and due professional care?		
CONFORMS ✓	PARTIAL	NOT CONFORMING
Is objective and free from undue influence (independent).		
Having regard to your review of conformance with the Code of Ethics (Objectivity, Seven Principles of Public Life) and any other evidence from the review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being objective and free from undue influence (independent)?		
CONFORMS ✓	PARTIAL	NOT CONFORMING
Aligns with the strategies, objectives, and risks of the organisation.		
Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being aligned with the strategies, objectives, and risks of the organisation?		
CONFORMS	PARTIAL ✓	NOT CONFORMING
Is appropriately positioned and adequately resourced.		
Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being appropriately positioned and adequately resourced?		
CONFORMS	PARTIAL ✓	NOT CONFORMING
Elements such as these are a requirement of the role and are reviewed regularly via 1-1's with the IAAM.		
Auditors complete and regularly update their Continual Professional Development (CPD) records.		
The Quality Assurance and Improvement Programme; internal assessments ensure auditors can demonstrate competence.		
Elements such as these are a requirement of the role and, as such, are referred to in job descriptions and are reviewed regularly.		
Auditors are required to complete an annual declaration of interests.		
Staff are aware of the requirement to declare any gifts and hospitality.		
Following the approval of the Council's Corporate Plan a review of the strategic risk register should be carried out to ensure that the key risks of the organisation are identified and addressed through the annual audit plan, which if delivered, will assist the council in delivering its overall plan. It should be noted that the current Strategic Risk Register does not reflect all the council's key risks.		
An assurance mapping exercise is carried out annually to allow more targeted and focused audit work to be completed and also to help avoid any duplication with other inspection regimes. Whilst declarations have been received for most services they remain unchained from the previous year despite the pandemic. In addition, sign-off has not been completed by all of the Directors and there is a concern that Manages / Directors are paying 'lip-service' to the process.		
The Internal Audit Team reports directly to the Financial Services Manager (Section 151 Officer) who attends the Executive Team meetings on invite. Whilst the Internal Audit Team is very small (1.2 FTE) assurance mapping and a risk-based audit plan helps the team deploy resources adequately to deliver the audit plan and deliver an annual audit opinion. See comment above about the recent completion of the assurance mapping exercise.		

<p>Demonstrates quality and continuous improvement.</p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating quality and continuous improvement?</p>	<p>CONFORMS ✓</p> <p>PARTIAL</p> <p>NOT CONFORMING</p>	<p>A Quality Assurance and Improvement Programme is in place which is submitted to the Audit Committee annually. It includes a number of internal and external assessments which ensures that internal audit activity can demonstrate quality and continuous improvement.</p>
<p>Communicates effectively.</p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by communicating effectively?</p>	<p>CONFORMS ✓</p> <p>PARTIAL</p> <p>NOT CONFORMING</p>	<p>The Internal Audit Charter sets out how Internal Audit communicates its activity.</p>
<p>Evidence / comments</p>		
<p>Provides risk-based assurance.</p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by providing risk-based assurance, based on adequate risk assessment?</p>	<p>CONFORMS ✓</p> <p>PARTIAL</p> <p>NOT CONFORMING</p>	<p>The Internal Audit Plan is formulated following a risk-based assessment of the audit universe.</p> <p>At the start of each audit assignment, a full risk assessment is completed by the auditor which identifies and documents the audit areas, key risks and expected controls. Operational risk registers currently being populated will assist with risk based auditing in the future.</p>
<p>Is insightful, proactive, and future-focused.</p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being insightful, proactive, and future-focused?</p>	<p>CONFORMS ✓</p> <p>PARTIAL</p> <p>NOT CONFORMING</p>	<p>The Internal Audit Team liaises with the Executive Team, prior to pulling together the annual audit plan.</p> <p>A number of 'horizon scanning' documents are used to ensure that full coverage is obtained.</p> <p>The implementation of a strategic risk register has assisted this year in ensuring the audit environment is covered. However, it should be noted that this register is still in its infancy and therefore still requires further development to effectively drive the internal audit plan going forward. It is understood that the new Director of Corporate Services is going to champion this development allowing the register to constructively shape internal audit work in the coming months.</p>

<p>Promotes organisational improvement.</p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by promoting organisational improvement?</p>	<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	<p>All internal audit reports are published on the Council's Intranet.</p> <p>Six monthly progress reports are issued to the Audit Committee. In addition, the Internal Audit Annual Report documents the work and other areas of work completed during the year.</p>
<p>Questions to consider</p>				<p>Evidence / comments</p>
<p>4 Code of Ethics</p>				
<p>Integrity</p>				<p>Auditors are bound by their ethical standards both in the internal audit Charter / Code of Ethics and with their own professional bodies, i.e. CIPFA / IIA. Elements such as these are a requirement of the role and, as such, are referred to in job descriptions and are reviewed regularly via performance appraisals and regular 1-1's.</p>
<p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display integrity by:</p> <ul style="list-style-type: none"> ■ Performing their work with honesty, diligence and responsibility? ■ Observing the law and making disclosures expected by the law and the profession? ■ Not knowingly partaking in any illegal activity nor engaging in acts that are discreditable to the profession of internal auditing or to the organisation? ■ Respecting and contributing to the legitimate and ethical objectives of the organisation? 				<p>Auditors are required to complete an annual declaration of interests.</p> <p>Auditors are bound by their professional and ethical standards and the Code of Ethics within the Internal Audit Charter.</p> <p>In addition to being bound by professional and ethical standards and the Code of Ethics within the Internal Audit Charter, internal audit also complies with the council's Employee Code of Conduct Policy.</p>
<p>CONFORMS ✓</p>				
<p>Objectivity</p>				
<p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display objectivity by:</p> <ul style="list-style-type: none"> ■ Not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment? ■ Not accepting anything that may impair or be presumed to impair their professional judgement? ■ Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review? 				<p>Compliance with Audit Charter / Code of Ethics</p> <p>Completion of annual declarations of interests.</p> <p>Auditors are required, from time to time to get involved / give advice on new systems / new controls etc. Owing to the size of the team, it may be that the same auditor will then have to perform the audit. The auditor is, however, mindful of their independence and has the option to call another auditor provider if necessary. In addition, during 20/21 the Council was working jointly with Wyre Council, therefore there was also an option to use audit staff from that authority if required. It should be noted that given the SLA between Lancaster City Council and Wyre Borough Council has now come to an end (31/03/21) this option is not available going forward.</p>
<p>CONFORMS ✓</p>				
<p>PARTIAL</p>				<p>NOT CONFORMING</p>

Questions to consider		Evidence / comments
<p>Confidentiality</p> <p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display due respect and care by:</p> <ul style="list-style-type: none"> ■ Acting prudently when using information acquired in the course of their duties and protecting that information? ■ Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation? 		
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>Competency</p> <p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display competence by:</p> <ul style="list-style-type: none"> ■ Only carrying out services for which they have the necessary knowledge, skills and experience? ■ Performing services in accordance with the PSIAS? ■ Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes? 		
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>Compliance with Audit Charter / Code of Conduct and Public Sector Internal Audit Standards.</p> <p>The Audit review process undertaken by the IAAM (CAE) includes a review of the information used for testing and how it was processed.</p> <p>Compliance with audit retention schedules.</p> <p>Understanding of the Data Protection Act 2018 and the enshrined GDPR.</p> <p>Compliance to the Audit Charter / Code of Ethics and the auditor's own professional standards.</p> <p>The Principal Auditor is currently working towards becoming professionally qualified to PIIA standard and therefore has the experience and skills to carry out the required audits.</p> <p>The Principal Auditor has been supplied with a copy of Audit Charter / Code of Ethics and the PSIAS and performance is regularly assessed.</p> <p>Work related objectives are agreed in advance at the start of the year and reviewed regularly as part of the performance appraisal process and regular 1-1's.</p> <p>All audit staff are encouraged to maintain records of continuing professional development to satisfy their professional membership requirements.</p> <p>Regular attendance at the audit weekend school.</p>		

<p>Seven Principles of Public Life</p> <p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors, whether consciously or through conformance with organisational procedures and norms, have due regard to the Committee on Standards of Public Life's <i>Seven Principles of Public Life</i>?</p>		<p>A copy of the Internal Audit Charter and the Code of Ethics which refers to the <u>Seven Principles of Public Life</u>, has been provided to all Internal Audit staff.</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>

Questions to consider		Evidence / comments
<p>Standards</p>		
<p>5 Attribute Standards</p>		
<p>5.1 1000 Purpose, Authority and Responsibility</p>		
<p>The questions in this section seek to confirm that the purpose, authority and responsibility of the internal audit activity have been properly defined consistent with the PSIAS, formally approved in an internal audit charter and periodically reviewed.</p>		
<p>Does the internal audit charter conform with the PSIAS by including a formal definition of:</p> <ul style="list-style-type: none"> ■ the purpose ■ the authority, and ■ the responsibility <p>of the internal audit activity consistent with the Public Sector Internal Audit Standards (PSIAS)?</p>		<p>The Audit Charter includes a definition in accordance with the PSIAS.</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
Questions to consider		Evidence / comments
<p>Does the internal audit charter conform with the PSIAS by clearly and appropriately defining the terms 'board' and 'senior management' for the purposes of the internal audit activity?</p> <p>Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances.</p>		<p>The Audit Charter defines the 'board' as the Audit Committee and 'Senior Management' as the Chief Executive and Executive Team.</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>

<p>Does the internal audit charter also:</p> <ul style="list-style-type: none"> ■ Set out the internal audit activity's position within the organisation? ■ Establish the chief audit executive's (CAE) functional reporting relationship with the board? ■ Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively? Where applicable, this will need to encompass shared service or external providers of internal audit, and the role of the contract manager. ■ Establish the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit? ■ Establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities? ■ Define the scope of internal audit activities? ■ Recognise that internal audit's remit extends to the entire control environment of the organisation? ■ Establish the organisational independence of internal audit? ■ Cover the arrangements for appropriate resourcing? ■ Define the role of internal audit in any fraud-related work? 	<p>See Audit Charter</p> <p>Since May 2017, the IAAM has provided assurance in the CIA role for Lancaster City Council. A service level agreement was entered into and was continued on a 12 month rolling contract. The service level agreement between Lancaster City Council and Wyre contains a job description which defines the nature of assurance services provided. However, it should be noted that this arrangement came to an end on 31/03/21.</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p>
<p>NOT CONFORMING</p>	

Questions to consider		Evidence / comments
Does the CAE periodically review the internal audit charter and present it to senior management and the board for approval?		An annual review is undertaken.
CONFORMS ✓	PARTIAL	
NOT CONFORMING		
5.2 1100 Independence and Objectivity		
The questions in this section seek to confirm that the internal audit activity is independent and internal auditors are objective in performing their work.		
Does the CAE have direct and unrestricted access to senior management and the board?		The IAAM (CAE) can report directly to the Executive Team if necessary and attends all the Audit Committee meetings to present reports. There is also an annual opportunity for the CAE to have a periodic private discussion with the Audit Committee.
Does the CAE have free and unfettered access to, as well as communicate effectively with, the chief executive or equivalent and the chair of the audit committee?		Access rights and reporting lines are documented in the Audit Charter. The Chairman of the Audit Committee attends regular pre-meeting briefings.
CONFORMS ✓	PARTIAL	
NOT CONFORMING		
Does the CAE attend audit committee meetings?		See minutes of Audit Committee indicating attendees and contribution.
Does the CAE contribute to audit committee agendas?		
CONFORMS ✓	PARTIAL	
NOT CONFORMING		
Are threats to objectivity identified and managed at the following levels:		Audit staff complete a declaration of interests annually. The option exists for audit work to be commissioned from Lancashire County Council, MIIA and Wyre Council if there is a threat to objectivity. The IAAM (CAE) will consider any threats to objectivity at the start of each audit. Internal Audit has limited responsibilities outside audit responsibilities, thus protecting its independence and objectivity.
■ Individual auditor?		
■ Engagement?		
■ Functional?		
■ Organisation?		
CONFORMS ✓	PARTIAL	
NOT CONFORMING		

<p>1110 Organisational Independence</p> <p>This subsection seeks to confirm that reporting and management arrangements been put in place that preserve the CAE's independence and objectivity.</p> <p>This is of particular importance when the CAE is line-managed by another officer of the authority.</p> <p>Does the CAE report to an organisational level equal or higher to the corporate management team?</p> <p>Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?</p>			
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Questions to consider</p>			
<p>Does the CAE's position in the management structure:</p> <ul style="list-style-type: none"> ■ Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board? ■ Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management? 			
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent?</p>			
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Is the organisational independence of internal audit realised by functional reporting by the CAE to the board?</p>			
		<p>The CAE reports directly to the Financial Services Manager (Section 151 Officer) who attends the Executive Team meetings on onvite.</p>	
		<p>Evidence / comments</p> <p>The audit work programme includes an opportunity for the CAE to meet with the Audit Committee in private.</p> <p>The IAAM is one of a number of Service Managers who together with the three Directors and the Deputy Director form the Council's Senior Leadership Team.</p>	
		<p>Documented in the Audit Charter which is presented to the Audit Committee annually.</p>	
		<p>The Audit Committee annually approves the Internal Audit Charter and the risk based plan at the start of the year.</p>	

<p>The 'interpretation' to PSIAS 1110 provides examples of factors which may indicate that the CAE reports functionally to the Board, which include where the board:</p> <ul style="list-style-type: none"> ■ approves the internal audit charter ■ approves the risk-based audit plan ■ approves the internal audit budget and resource plan ■ receives communications from the CAE on the activity's performance (in relation to the plan, for example) ■ approves decisions relating to the appointment and removal of the CAE ■ approves the remuneration of the CAE ■ seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations. 	<p>The Audit Committee receives six monthly updates on risk management and progress on completion of the audit plan.</p> <p>The appointment / dismissal of the CAE is not reflected in the council's Constitution as an elected member responsibility and falls to the Financial Services Manager (Section 151 Officer) who is responsible for maintaining an adequate internal audit function. Any decision, however, would be presented to the Audit Committee for noting.</p> <p>The Audit Committee work programme allows an opportunity for a private discussion with the External Auditor which would allow them to comment on the performance of the IAAM, if appropriate.</p> <p>The Audit Committee have the opportunity to question IAAM and the Financial Services Manager (Section 151 Officer) at the meeting when the audit plan is presented, and progress reports are provided.</p> <p>The Financial Services Manager (Section 151 Officer), who attends Executive Team meetings on a regular basis has regular 1-2-1's with the IAAM (CAE) to ensure that she is fulfilling the terms of conditions of the SLA that is in place between Lancaster City Council and Wyre Council for a shared CIA.</p>			
<p>The Public Sector Interpretation to PSIAS 1110 notes that board approval of CAE remuneration does not generally happen in the UK public sector, and that the underlying principle is therefore that the independence of the CAE must be safeguarded by ensuring that their remuneration or performance assessment is not inappropriately influenced by those subject to audit.</p> <p>EQA assessors should therefore consider whether adequate steps are taken to safeguard the independence of the CAE by ensuring that remuneration or performance assessment is not inappropriately influenced by those subject to audit. This might for example reflect some involvement of the chief executive in the performance assessment process or feedback from the audit committee chair.</p>				
<table border="1"> <tr> <td data-bbox="1214 1868 1362 2101">CONFORMS ✓</td> <td data-bbox="1214 1585 1362 1868">PARTIAL</td> <td data-bbox="1214 1070 1362 1585">NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL	NOT CONFORMING	
CONFORMS ✓	PARTIAL	NOT CONFORMING		
<p>1111 Direct Interaction with the Board</p>				
<p>Does the CAE communicate and interact directly with the board?</p>				
CONFORMS ✓	PARTIAL	NOT CONFORMING		
<p>The IAAM (CAE) attends a pre-audit meeting with the Chairman of the Audit Committee and also attends all Audit Committee Meetings.</p>				

Questions to consider	Evidence / comments	
1112 Chief Audit Executive Roles Beyond Internal Auditing		
Where the CAE has roles or responsibilities that fall outside of internal auditing, are adequate safeguards in place to limit impairments to independence or objectivity?	The IAAM has operational responsibility for risk management. External Assurance will be sought in respect of this services operating effectively.	
Does the board periodically review these safeguards?	This arrangement is reported to the Audit Committee annually in the Annual Audit Report.	
CONFORMS ✓	PARTIAL	NOT CONFORMING
1120 Individual Objectivity		
Do internal auditors have an impartial, unbiased attitude?	Feedback questions sent after each audit are used to monitor the auditor's approach.	
CONFORMS ✓	PARTIAL	NOT CONFORMING
Do internal auditors avoid any conflict of interest, whether apparent or actual?	Auditors will complete an annual declaration of interests.	
CONFORMS ✓	PARTIAL	NOT CONFORMING
1130 Impairment to Independence or Objectivity		
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	Compliance with the Internal Audit Charter / Code of Ethics. Audit Staff are aware that they need to report any suspected conflicts of interest if they arise during an audit review. There have been no conflicts of interest recorded to date.	
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A
Does review indicate that work allocations have operated so that internal auditors have not assessed specific operations for which they have been responsible within the previous year?	The IAAM has operational responsibility for risk management. External Assurance will be sought in respect of this services operating effectively.	
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A

<p>If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?</p>	<p>CONFORMS ✓ PARTIAL</p>		<p>NOT CONFORMING</p>	<p>N/A</p>
<p>Is the risk of over-familiarity or complacency managed effectively: for example by rotating assignments for ongoing assurance engagements and other audit responsibilities periodically within the internal audit team?</p>	<p>CONFORMS ✓ PARTIAL</p>		<p>NOT CONFORMING</p>	<p>Owing to the size of the audit team this is not achievable. However the use of other audit providers and the potential to use Wyre Council up to 31/03/21 allows the rotation of audits where appropriate.</p>
<p>Have internal auditors declared interests in accordance with organisational requirements?</p>	<p>CONFORMS ✓ PARTIAL</p>		<p>NOT CONFORMING</p>	<p>The Internal Audit Team Audit all complete an annual declaration of interests.</p>
<p>Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies), has this been declared and investigated fully?</p>	<p>CONFORMS ✓ PARTIAL</p>		<p>NOT CONFORMING</p>	<p>Staff are provided with the Internal Audit Charter / Code of Ethics. Both documents are also on the intranet.</p> <p>There have been no declarations of gifts and hospitality received in 2020/21.</p> <p>Audit staff are reminded annually of the council's procedures in respect of receiving gifts and hospitality.</p>

Questions to consider		Evidence / comments
Does review indicate that no instances have been identified where an internal auditor has used information obtained during the course of duties for personal gain?		There have been no instances where an auditor has used information obtained during the course of duties for personal gain.
CONFORMS ✓	PARTIAL	See declaration of interest.
	NOT CONFORMING	
Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?		The council's Internal Audit Team do not undertake any consultancy work.
CONFORMS ✓	PARTIAL	
	NOT CONFORMING	
If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?		The council's Internal Audit Team does not undertake any consultancy work. However the IAAM (CAE) has been providing cover for the CAE role at Lancaster City Council since May 2017. This was on a 12 month rolling contract which amounts to approximately 55 days per year. However, it should be noted that this arrangement came to an end on 31/03/21.
CONFORMS N/A	PARTIAL N/A	
	NOT CONFORMING N/A	
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?		
CONFORMS N/A	PARTIAL N/A	
	NOT CONFORMING N/A	

<p>This section seeks to confirm that engagements are performed with proficiency and due professional care, having regard to the skills and qualifications of the CAE and their staff, and how they exercise their capability in practice.</p>		
<p>1210 Proficiency</p>		
<p>Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent?</p>	<p>The IAAM (CAE) is a fully Certified Chartered Auditor (CIA). She also holds a Qualification in Internal Audit Leadership (QIAL).</p> <p>The IAAM (CAE) has 20 years' experience in internal audit (12 of which managing an audit service) including County Council, 2 District Councils, experience in auditing the Police and Fire Authority, schools and residential establishments.</p>	
<p>Is the CAE suitably experienced?</p>	<p>CONFORMS ✓</p>	<p>PARTIAL</p>
<p>Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes?</p>	<p>Recruitment and selection is undertaken in accordance with HR policies and practices.</p> <p>Last updated in 2019 as part of the JE review.</p>	
<p>Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?</p>	<p>CONFORMS ✓</p>	<p>PARTIAL</p>
<p>Having regard to the answers to the other questions in this section and other matters, does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?</p> <p>Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance?</p>	<p>The IAAM will ensure audit staff have the relevant qualifications and experience to ensure they can carry out their responsibilities.</p> <p>The IAAM (CAE) and Principal Auditor have the necessary qualifications and skill set to carry out any audit work. However, if a piece of work was to be carried out that would require a specialist auditor skill set, an external audit organisation would be contacted.</p>	
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>

Questions to consider		Evidence / comments
Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?		The use of TIS online and CIPFA control matrices help assist in evaluating the risk of fraud. The knowledge and expertise of the in-house Corporate Enquiry Team is available if required. The IAAM has attended an external course in respect of conducting internal investigations.
CONFORMS ✓	PARTIAL	
Do internal auditors have sufficient knowledge of key information technology risks and controls?		The council can use the expertise of Lancashire County Council ICT auditors where appropriate.
CONFORMS ✓	PARTIAL	NOT CONFORMING
Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?		Although the Internal Audit function do not have any CAAT software, arrangements are in place to utilise Lancashire County CAAT software if the need arises. In addition, in-house training and development has been undertaken to ensure that staff have sufficient competence in using available technology, e.g. Excel to assist in conducting their audits -house training
CONFORMS ✓	PARTIAL	NOT CONFORMING
1220 Due Professional Care		
Do internal auditors exercise due professional care by considering the:		The Principal Auditor will discuss and agree the scope, objectives and risks at the start of each audit with the client.
■	Extent of work needed to achieve the engagement's objectives?	The audit plan considers time, cost, complexity and the assurances it requires from each audit.
■	Relative complexity, materiality or significance of matters to which assurance procedures are applied?	Guidance, information and advice is available to the auditor when designing tests to ensure adequacy and effectiveness of governance, risk management and control.
■	Adequacy and effectiveness of governance, risk management and control processes?	CIPFA risk matrices and the TIS online subscription are frequently used to ensure all risk areas are considered and subsequent controls have been identified. Audit staff have access to several CIPFA publications which assist with the consideration of audit, governance and risk. Namely; CIPFA – Delivering Good Governance in Local Government; and the PSIAS – Local Government; Application Note for the UK Public Sector.
■	Probability of significant errors, fraud, or non-compliance?	
■	Cost of assurance in relation to potential benefits?	
In doing the above, internal auditors must also consider how technology-based audit and other data analysis techniques can provide assurance.		
CONFORMS ✓	PARTIAL	NOT CONFORMING

		<p>At the start of the audit, the auditor will have an initial meeting with the auditee to discuss potential risks. If any further risks, fraud etc. are highlighted during the audit, the scope would be amended to include the work required. The auditor will also be alert to any non-compliance issues raised by officers.</p> <p>All work is risk based. If additional work is required, the Principal Auditor will agree this with IAAM (CAE) subject to a cost/benefit analysis being undertaken.</p> <p>Consideration will be given to what methods of data analysis / techniques should / could be used at the start of each audit to obtain the necessary assurances.</p>
<p>Do internal auditors exercise due professional care during a consulting engagement by considering the:</p> <ul style="list-style-type: none"> ■ Needs and expectations of clients, including the nature, timing and communication of engagement results? ■ Relative complexity and extent of work needed to achieve the engagement's objectives? ■ Cost of the consulting engagement in relation to potential benefits? 	<p>CONFORMS N/A</p> <p>PARTIAL N/A</p> <p>NOT CONFORMING N/A</p>	<p>There are no such engagements undertaken presently.</p>
<p>1230 Continuing Professional Development</p>		
<p>Has the CAE defined the skills and competencies for each level of auditor?</p> <p>And</p> <p>Does the CAE periodically assess individual auditors against the predetermined skills and competencies?</p>	<p>CONFORMS ✓</p> <p>PARTIAL</p> <p>NOT CONFORMING</p>	<p>The council establishment has one level of auditor at Grade 4 with the support of IAAM (CAE). Financial resources are available to buy in additional audit resource to assist with the delivery of the 2020/21 audit plan however owing to the ongoing pandemic it has not been possible to procure such audit service, auditors across the district having been re-deployed to other services.</p> <p>Each audit report is reviewed by the IAAM (CAE) to ensure the audit has been conducted in accordance with professional standards and requirements of any auditing publications.</p> <p>The skills and competencies of the Principal Auditor are annually reviewed as part of the council's performance appraisal scheme. It is understood that all Lancashire County Council / Wyre Council auditors also have performance appraisals where their skills and competencies are assessed.</p>

Questions to consider		Evidence / comments
<p>Do internal auditors undertake a programme of continuing professional development?</p> <p>And</p> <p>Do internal auditors maintain a record of their professional development and training activities?</p>		<p>Both the IAAM (CAE) and the Principal Auditor undertake CPD in accordance with their professional qualification requirements.</p> <p>HR maintains a list of all courses that have been attended by Audit staff.</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
5.4 1300 Quality Assurance and Improvement Programme		
<p>The questions in this section seek to confirm that the CAE has developed and maintained a Quality Assurance and Improvement Programme (QAIP) through which conformance with the PSIAS can be and is properly assessed.</p>		
<p>Has the CAE developed a QAIP that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?</p> <p>Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?</p> <p>Does the CAE maintain the QAIP?</p> <p>Are any statutory requirements for review of the internal audit activity satisfied?</p>		<p>The QAIP includes both internal; and external assessments.</p> <p>The internal assessments include:</p> <ul style="list-style-type: none"> • An annual self-assessment of the effectiveness of the audit service using the PSIAS; • Feedback on the Head of Governance (CAE) is sought annually prior to their performance appraisal; • 6 monthly monitoring of the internal audit activity to the Audit Committee; and • Day-to-day monitoring of compliance with the Definition of Internal Auditing and the Code of Ethics documented within the Sections Audit Charter and also in the PSIAS. <p>External assessments include:</p> <ul style="list-style-type: none"> • A 5 yearly independent assessment of compliance to the PSIAS and the Local Government Application Guidance Note; • Annual review of the council's Annual Governance Statement as part of the Financial Accounts audit; • Regular attendance at the Audit Committee with the opportunity to meet in private with the Committee; and • External Auditors and Audit Committee Members reviewing and challenging internal audit reports.
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>

				All aspects of the programme are routinely monitored. The review is conducted by IAAM (CAE) and scrutinised by the Financial Services Manager (S151 Officer).
1310 Requirements of the Quality Assurance and Improvement Programme				
<i>Does the QAIP include both internal and external assessments?</i>				
CONFORMS ✓	PARTIAL	NOT CONFORMING		A self-assessment is performed annually. In addition, an external review of the effectiveness of the internal audit function is carried out every 5 years, in accordance with the requirements of the PISIAS. Lancaster's review took place in March 2018. The next peer review is due to take place in February 2023, however it should be noted that as at 04/06/21 (following the departure of the IAAM and the Principal Auditor) Lancaster does not have an Audit function and therefore may not be in a position to participate in this peer review process. The External Auditor will also review the work of the internal audit service as part of the work they complete in respect of the ISA 260 – Report to those charged with Governance.
1311 Internal Assessments				
<i>Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?</i>				
CONFORMS ✓	PARTIAL	NOT CONFORMING		Whilst this is limited due to the size of the audit team, Lancashire County Council or another external resources would be bought in if required.
<i>Do internal assessments include ongoing monitoring of the internal audit activity, such as:</i>				
				All audit work is subject to a full review before the report is published. This includes a full review of working papers, evidence found, testing completed and validity of recommendations. An annual review using the checklist within the Local Government Application Note is undertaken. This is subject to an external assessment every 5 years.
CONFORMS ✓	PARTIAL	NOT CONFORMING		Lancaster's review took place in March 2018 with the next review due in February 2023 however, it should be noted that as at 04/06/21 (following the departure of the IAAM 31/03/21 and the Principal Auditor 04/06/21) Lancaster does not have an Audit function and therefore may not be in a position to participate in this peer review process.
Questions to consider			Evidence / comments	

<p>Does ongoing performance monitoring contribute to quality improvement through the effective use of performance targets?</p> <ul style="list-style-type: none"> ■ Is there a set of comprehensive targets which between them encompass all significant internal audit activities? ■ Are the performance targets developed in consultation with appropriate parties and included in any service level agreement? ■ Does the CAE measure, monitor and report on progress against these targets? ■ Does ongoing performance monitoring include obtaining stakeholder feedback? 	<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	<p>The Principal Auditor is set targets / objectives annually as part of the performance appraisal scheme. Performance against these targets/objectives is monitored regularly.</p> <p>The audit plan is monitored day-to-day and the Audit Committee receives six monthly updates on completion of the audit plan.</p> <p>Reporting timescales are published in the Audit Charter.</p> <p>In addition, ad-hoc benchmarking is conducted with the other Lancashire Internal Audit services. The use of external providers (Lancashire County Council / Wyre Council) also assists with benchmarking the quality of internal audit reports.</p> <p>Agreed performance targets would be documented in service level agreements if applicable.</p> <p>An email requesting feedback on how the audit was conducted, whether it met expectations, and whether it was of value etc is sent to the client at the end of each audit review. Any areas of concern are followed up by the IAAM (CAE).</p>
<p>Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices?</p> <p>Sufficiency would require knowledge of the PS/IAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories, etc.</p>	<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	<p>The periodic self-assessment is normally undertaken by the IAAM (CAE) and reviewed by the Financial Services Manager (Section 151 Officer) – however this assessment has been completed by the Principal Auditor following the departure of the IAAM.</p> <p>In order to comply with PS/IAS and the Local Government Application Note; an external assessment must be carried out once every 5 years. Lancaster’s assessment took place in March 2018. The next review is due to be completed in February 2023 however, it should be noted that as at 04/06/21 (following the departure of the IAAM 31/03/21 and the Principal Auditor 04/06/21) Lancaster does not have an Audit function and therefore may not be in a position to participate in this peer review process.</p>
<p>Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?</p>				<p>Previous peer reviews used the checklist recommended in CIPFA’s Code of Practice. The assessment also included a review of the annual internal</p>

<p>audit report which documents the achievement of the audit plan and its wider aims and objectives documented in the Audit Charter.</p>		
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>1312 External Assessments</p>		
<p>Has an external assessment been carried out, or is one planned to be carried out, at least once every five years?</p>		
<p>Has the CAE discussed the alternative approaches to external assessment with the board? This should reflect the relative costs of the different approaches, the potential advantages of an external viewpoint, and whether there are factors which might be considered to warrant a demonstrably independent assessment.</p>		
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>The last external assessment was completed in March 2018 and the next one is scheduled for February 2023 however, it should be noted that as at 04/06/21 (following the departure of the IAAM 31/03/21 and the Principal Auditor 04/06/21) Lancaster does not have an Audit function and therefore may not be in a position to participate in this peer review process.</p>		
<p>The proposal from the Lancashire District Chief Auditors group which has been agreed by Audit Committee is to complete an annual self-assessment and use peer reviews to obtain an independent external validation. Lancaster's first external assessment was in March 2018. The External Auditor at the time (KPMG) received the self-assessment as part of the Audit Committee agenda and therefore had the opportunity to challenge the content.</p>		
<p>A memorandum of understanding (MoU) and templates are in place which will be used for all external assessments. The report template allows for the assessment team to state their qualifications and independence.</p>		

Questions to consider	Evidence / comments		
<p>Has the CAE properly discussed the qualifications and independence of the assessor or assessment team with the board?</p> <p>In doing this, the CAE should consider whether the assessor or assessment team has demonstrated its competence in both the professional practice of internal auditing <i>and</i> the external assessment process. Competence can be demonstrated through both experience and theoretical learning. Experience of similar organisations or sectors is more valuable than less relevant experience. In the case of an assessment team, not all members need to have all the competencies – it is the team as a whole that is qualified.</p> <p>If the capability of the assessor or assessment team is not immediately obvious, the CAE should document how they used professional judgement to decide whether this is sufficient to carry out the external assessment.</p> <p>If the assessor or assessment team has any real or apparent conflicts of interest with the organisation, this should be clearly explained to the board, and safeguards should be put in place to minimise the effect of this on the conduct of the external assessment.</p> <p>Conflict of interest may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.</p>	<p>The qualifications and independence of the assessment team will be documented in the final report. The peer review team will ensure that the assessment team do not have any real or apparent conflicts of interest with the organisation prior to the work commencing.</p>		
<p>CONFORMS ✓</p>	PARTIAL	NOT CONFORMING	<p>These requirements form the basis of the 'Memorandum of Understanding'.</p>
<p>Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?</p> <p>The CAE should also agree this scope with the external assessor or assessment team.</p>			
<p>CONFORMS ✓</p>	PARTIAL	NOT CONFORMING	

1320 Reporting on the Quality Assurance and Improvement Programme		
<p>Has the CAE reported the results of the QAIP to senior management and the board?</p> <p>Note that:</p> <ul style="list-style-type: none"> ■ the results of both external and periodic internal assessment must be communicated upon completion ■ the results of ongoing monitoring must be communicated at least annually ■ the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS. 		<p>NOT CONFORMING</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING
Questions to consider		
<p>Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?</p>		
CONFORMS ✓	PARTIAL	NOT CONFORMING
1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'		
<p>Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?</p>		
CONFORMS ✓	PARTIAL	NOT CONFORMING
1322 Disclosure of Non-conformance		
<p>Has the CAE reported any instances of non-conformance with the PSIAS to the board?</p>		
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A
<p>The Internal Audit Annual Report reports the results of the QAIP to Audit Committee. The results of the internal assessment of the internal audit function are scrutinised by the Financial Services Manager (Section 151 Officer) and presented to the Audit Committee.</p> <p>The internal assessment is reported to Audit Committee annually, normally to accompany the Annual Audit Opinion and any external assessments will be reported to the Audit Committee following the issue of any report.</p> <p>Both the Internal Audit Annual Report and the Internal Audit Charter refer to the QAIP and its ongoing monitoring.</p> <p>Conformance with PSIAS is documented.</p>		<p>Evidence / comments</p> <p>The QAIP is reported in the annual report. No gaps have been highlighted following the assessment of the internal audit service that need reporting in the internal audit annual report or the Annual Governance Statement for 2020/21.</p> <p>The self-assessment is reviewed by the Financial Services Manager (Section 151 Officer) and reported to the Audit Committee.</p> <p>There were no instances of non-conformance with the PSIAS during 2020/21.</p>

<p>If appropriate, has the CAE considered including any significant deviations from the PS/IAS in the governance statement and has this been evidenced?</p>	<p>PARTIAL N/A</p>	<p>NOT CONFORMING N/A</p>	<p>There were no significant deviations identified during 2020/21 that required reporting in the AGS.</p>
<p>Questions to consider</p>			<p>Evidence / comments</p>
<p>6 Performance Standards</p>			
<p>6.1 2000 Managing the Internal Audit Activity</p>			
<p>The questions in this section seek to confirm that the internal audit activity's work achieves the purposes and responsibility of the activity, as set out in the internal audit charter, and that the internal audit activity adds value to the organisation and its stakeholders by:</p> <ul style="list-style-type: none"> ■ providing objective and relevant assurance ■ contributing to the effectiveness and efficiency of the governance, risk management and internal control processes. 			
<p>2010 Planning</p>			
<p>Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals? Does the risk-based plan take into account the requirement to produce an annual internal audit opinion? Does the risk-based plan incorporate or is it linked to a strategic or high-level statement of: <ul style="list-style-type: none"> ■ How the internal audit service will be delivered? ■ How the internal audit service will be developed in accordance with the internal audit charter? ■ How the internal audit service links to organisational objectives and priorities? </p>			<p>The audit plan is formulated following discussions with the Executive Team and consideration of the Council's corporate plan and ambitions. The audit plan is formulated taking into consideration the areas on which the IAAM (CAE) is required to provide assurance in the annual audit report. The audit plan considers the council's risk registers (although this has been limited to date given their infancy), business plan, priority projects / objectives and also any emerging threats, opportunities for fraud etc. Documented in the Audit Charter / Code of Ethics. Development of the Internal Audit Service will be identified as part of this self-assessment and also at the 5 year external assessment.</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	<p>Progress on meeting these improvements is monitored through the performance appraisal system.</p>

Questions to consider		Evidence / comments
<p>Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?</p> <p>In developing the risk-based plan, has the CAE taken into account the organisation's risk management framework and relative risk maturity of the organisation?</p> <p>If such a risk management framework does not exist, has the CAE used their judgement of risks after input from senior management and the board and evidenced this? N/A</p>		<p>Local and national risks are identified through the following;</p> <ul style="list-style-type: none"> • Strategic risk discussions • Networking and attendance at group auditor meetings; • Meetings with the External Auditor; and • Reading and research. <p>The Audit Committee are given the opportunity to comment on the work in the plan and discuss emerging risks either locally or nationally.</p> <p>The audit brief for each audit will identify and address individual risks, be it locally or nationally. The brief for each audit are published on the council's intranet.</p> <p>Both strategic and operational risks should be considered when developing the audit plan, however owing to their infancy that has not been achievable during 2021/21.</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p> <p>NOT CONFORMING</p>	
<p>Does the risk-based plan set out the:</p> <ul style="list-style-type: none"> ■ Audit work to be carried out? ■ Respective priorities of those pieces of audit work? ■ Estimated resources needed for the work? <p>Does the risk-based plan differentiate between audit and other types of work?</p>		<p>The audit plan lists the nature of the audit work.</p> <p>The plan itself does not list the priority of the work to be completed. However at the start of the year the audits will be prioritised and a start date will be agreed between the IAAM (CAE), Principal Auditor and the Service Manager.</p> <p>A contingency / investigation resource is set aside. The plan is regularly monitored and flexed if required.</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p> <p>NOT CONFORMING</p>	
<p>Is the risk-based plan sufficiently flexible to reflect the changing risks and priorities of the organisation?</p> <p>Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls?</p>		<p>The plan is flexible. If any new risks emerge during the year or new systems are implemented the contingency will be used initially. If this resource has already been used it may be that some work on the audit plan may slip to the following year. Any changes or deviation from the audit plan will be reported to the audit committee.</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p> <p>NOT CONFORMING</p>	

<p>Is the internal audit activity's plan of engagements based on a documented risk assessment?</p> <p>Is the risk assessment used to develop the plan of engagements undertaken at least annually?</p>	<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	<p>The process that is undertaken to formulate the audit plan is an annual risk assessment.</p> <p>The risk assessment is completed annually and reviewed half yearly.</p>
<p>In developing the risk-based plan, has the CAE also given sufficient consideration to:</p> <ul style="list-style-type: none"> ■ Any declarations of interest (for the avoidance for conflicts of interest)? ■ The requirement to use specialists, e.g. IT or contract and procurement auditors? ■ Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary? ■ The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion? 	<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	<p>Audit staff complete an annual declaration of interest. There have been no conflicts of interest recorded in 2020/21.</p> <p>The Principal Auditor has the necessary qualifications and skill set to carry out any audit. However if a piece of work was to be carried out that would require a specialist auditor skill set, an external audit organisation would be contacted.</p> <p>A contingency / investigation resource is set aside.</p> <p>Time to plan each audit is factored into the number of days allocated for each piece of work. Attendance at Audit Committee, development of the annual report and other IAAM (CAE) activities is listed separately on the audit plan.</p>
<p>Questions to consider</p>				<p>Evidence / comments</p>
<p>In developing the risk-based plan, has the CAE consulted with senior management and the board to obtain an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes?</p> <p>Does the CAE identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinion and any other conclusions?</p>				<p>Senior Management input is requested when drafting the audit plan. It is then submitted to the Audit Committee and which point their input is also requested.</p> <p>The annual audit report is scrutinised by the Financial Services Manager (Section 151 Officer) and is also presented to the Audit Committee for consideration. The document would be amended accordingly, recognising comments made, recommendations, changes etc.</p> <p>In regard to audit report opinions, the overall opinions are based on the findings of each audit, which are graded using a set framework. Auditees can challenge the audit opinion and provide reasons in support of why they think the opinion should be changed. This will be done at the draft stage of the reporting process.</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>		

<p>Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?</p>	<p>Shared good practice takes place between the two organisations (Lancaster and Wyre) in relation to risk management, internal control and information governance.</p>	
<p>Are consulting engagements that have been accepted included in the risk-based plan?</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>2020 Communication and Approval</p>		
<p>Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval?</p>	<p>Members of the Executive Team are involved in the production of the annual audit plan. The draft audit plan is submitted to the Audit Committee in Feb / March for approval.</p>	
<p>Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?</p>	<p>A six monthly update is provided for the Audit Committee which includes any deviations from the audit plan.</p>	
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>Has the CAE communicated the impact of any resource limitations to senior management and the board?</p>	<p>Resource limitations would be reported to Executive Team and the Audit Committee where appropriate as part of the update report.</p>	
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>2030 Resource Management</p>		
<p>Does the risk-based plan explain how internal audit's resource requirements have been assessed?</p>	<p>The internal audit resource requirements are documented in the Audit Charter. The Audit Committee are only presented with the audit plan, are aware of the size of the audit section and have the opportunity to challenge the plan if they feel there is insufficient coverage.</p>	
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise disruption to the functions being audited, subject to the requirement to obtain sufficient assurance?</p>	<p>The External Auditors have not indicated they are uncomfortable with the internal audit resources available.</p>	
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>The Auditor will agree the timing of engagements with relevant Service Managers to ensure that it is convenient prior to the start of each audit.</p>		

Questions to consider		Evidence / comments
<p>If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board?</p> <p>This may include an imbalance between the work plan and resource availability and/or other significant matters that jeopardise the delivery of the plan or require it to be changed.</p>		<p>There is an opportunity for the IAAM (CAE) to comment on sufficiency of resources where appropriate; although it is considered that the resource available is currently enough to deliver the audit plan. The team is small; however, this was supported by the SLA with Wyre Council and the use of other audit providers to provide further audit days as required. However it should be noted that the SLA with Wyre Council came to an end on 31/03/21</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p> <p>NOT CONFORMING</p>	
<p>2040 Policies and Procedures</p> <p>Has the CAE developed and put into place policies and procedures to guide the internal audit activity?</p> <p>Examples include maintaining an audit manual and/or using electronic management systems to guide staff in performing their duties in a manner that conforms to the PSIAS</p> <p>Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?</p>		<p>Standardised working papers and a reporting format has been developed. The council's intranet is used to store key documents that guide audit activity i.e. Audit Charter / Code of Ethics, Risk Management Policy and other CIPFA guidance. The Principal Auditor has been issued with the PSIAS and CIPFA's Application Note.</p> <p>Internal audit policies and procedures are reviewed annually to ensure conformity to PSIAS.</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p> <p>NOT CONFORMING</p>	
<p>2050 Coordination</p> <p>Does the risk-based plan include an adequately developed approach to using other sources of assurance and any work that may be required to place reliance upon those sources?</p> <p>The CAE should generally share information and coordinate activities with other internal and external providers of assurance and consulting services. They may also carry out an assurance mapping exercise, or make use of assurance mapping carried out by other assurance providers.</p> <p>They should also meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans.</p>		<p>Other streams of assurance such as external inspections are considered, e.g. RIPA, Taxi Licencing, Food Safety and Local Government Ombudsman.</p> <p>Basic assurance mapping has been carried out by the Principal Auditor to identify sources of assurance which is documented on a spreadsheet and regularly updated. See comments above about the results of the recent exercise.</p> <p>Regular meetings are held with External Audit to update them on the work currently being carried out by internal audit.</p> <p>Both internal and external audit plans are shared and communicated publicly at Audit Committee.</p>

<p>Where key organisational risks relate to work undertaken through partnerships, the auditor may be able to take assurance from work undertaken by others, or by obtaining assurance directly.</p>	<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	<p>Regular meetings are held with the External Auditor and the Financial Services Manager (S151 Officer) to discuss the progress made in implementing the audit plan.</p>
<p>Evidence / comments</p>				
<p>2060 Reporting to Senior Management and the Board</p>				
<p>Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?</p> <p>Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?</p> <p>Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?</p>	<p>The IAAM (CAE) will update the Financial Services Manager (Section 151 Officer) on a regular basis.</p> <p>Six monthly audit and risk management update reports are submitted to the Audit Committee.</p> <p>The Audit Chairman and the External Auditor will receive verbal updates on any frauds / whistleblowing cases.</p> <p>The Audit Committee receives internal audit's Audit Charter / Code of Ethics annually which covers its purpose, authority and responsibility.</p> <p>Significant risk exposures should be documented via the strategic risk registers, however as reported in the annual opinion this is not the case.</p> <p>Governance issues are considered along with the annual agreement of the AGS. No arrangements have yet been made on who will take responsibility for the production of the AGS for 2020/21.</p> <p>Gifts and hospitality registers are also reviewed by Audit Committee and the Monitoring Officer.</p> <p>An agreed work programme is in place documenting when reports are submitted to Audit Committee.</p> <p>Where actions are considered to be important or urgent, more regular update reports are requested by Audit Committee and the relevant officer is invited to attend committee.</p>			
<p>2070 External Service Provider and Organisational Responsibility for Internal Auditing</p>				
<p>Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?</p>	<p>This would be documented in any service level agreement.</p>			

<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>6.2 2100 Nature of Work</p>		
<p>The questions in this section seek to confirm that the internal audit activity evaluates and contributes to the improvement of the organisation's governance, risk management and internal control processes using a systematic and disciplined approach.</p>		
<p>2110 Governance</p>		
<p>Does the internal audit activity assess and make appropriate recommendations to improve the organisation's governance processes for:</p>		
<ul style="list-style-type: none"> ■ Making strategic and operational decisions? ■ Overseeing risk management and control? ■ Promoting appropriate ethics and values within the organisation? ■ Ensuring effective organisational performance management and accountability? ■ Communicating risk and control information to appropriate areas of the organisation? ■ Coordinating the activities of and communicating information among the board, external and internal auditors and management? 		
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>The audit plan is formulated to ensure it contributes to the improvement of the organisation's governance, risk management and internal control processes. Audit reviews will cover the governance and the key risks of the service as well as the key controls. However risk registers have not been utilised as planned given their infancy. An ethical governance survey was conducted in 2018 to promote positive behaviours and values and identify gaps in knowledge and understanding. An equivalent survey for members was due to be issued early in 2020/21 but has been delayed by the pandemic. Managers are held accountable for actions in audit reports and findings from previous audit reports are followed up by the audit team. Performance management is scheduled in the audit plan biennially. Audit reports are issued to the staff responsible for the area being audited. The Audit Committee receive regular updates on risk management. In previous years, governance assurance meetings were carried out prior to the completion of the Annual Governance Statement. This was attended by key officers of the council. However it should be noted that owing to the COVID-19 pandemic, alternative methods were used during 2019/20 to pull together the statement and that at the time of completing this self-assessment, it was not clear who would be pulling together the AGS for 2020/21 following the departure of the IAAM. All audit reports are issued to clients and published on the Intranet and available for all staff / members to view. External Auditor communication is presented to Audit Committee. Regular updates are presented to council on the work of Audit Committee.</p>		

	<p>Governance issues are reviewed as part of the audit as are risk management, health and safety and performance management.</p>			
<p>Questions to consider</p>				
<p>Has the internal audit activity evaluated the design, implementation and effectiveness of the organisation’s ethics-related objectives, programmes and activities? This is an area where the CAE may be able to use other sources of assurance.</p>	<p>The ethical governance survey completed in 2018 tested knowledge and understanding of key policies and procedures and helped identify any gaps allowing targeted future training.</p>			
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">CONFORMS ✓</td> <td style="width: 25%; text-align: center;">PARTIAL</td> <td style="width: 25%; text-align: center;">NOT CONFORMING</td> </tr> </table> <p>Has the internal audit activity assessed whether the organisation’s information technology governance supports the organisation’s strategies and objectives? This is an area where the CAE may be able to use other sources of assurance.</p>	CONFORMS ✓	PARTIAL	NOT CONFORMING	<p>The audit plan will cover IT governance if required.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING		
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">CONFORMS ✓</td> <td style="width: 25%; text-align: center;">PARTIAL</td> <td style="width: 25%; text-align: center;">NOT CONFORMING</td> </tr> </table> <p>2120 Risk Management</p>	CONFORMS ✓	PARTIAL	NOT CONFORMING	
CONFORMS ✓	PARTIAL	NOT CONFORMING		
<p>Has the internal audit activity evaluated the effectiveness of the organisation’s risk management processes by determining that:</p> <ul style="list-style-type: none"> ■ Organisational objectives support and align with the organisation’s mission? ■ Significant risks are identified and assessed? ■ Appropriate risk responses are selected that align risks with the organisation’s risk appetite? ■ Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities? 	<p>Documented in the Council Plan – However these have not been evaluated by Internal Audit.</p> <p>Risk Management (strategic) has been identified in the Internal Audit Annual Report as an area requiring attention, therefore no specific actions have been documented here.</p>			
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">CONFORMS</td> <td style="width: 25%; text-align: center;">PARTIAL ✓</td> <td style="width: 25%; text-align: center;">NOT CONFORMING</td> </tr> </table>	CONFORMS	PARTIAL ✓	NOT CONFORMING	
CONFORMS	PARTIAL ✓	NOT CONFORMING		
<p>Has the internal audit activity evaluated the risks relating to the organisation’s governance, operations and information systems regarding the:</p>	<p>The audit plan for 2020/21 identified a number of pieces of work which involved evaluating the risks of key strategic projects. Financial and operational information is tested for reliability and</p>			

<ul style="list-style-type: none"> ■ Achievement of the organisation’s strategic objectives? ■ Reliability and integrity of financial and operational information? ■ Effectiveness and efficiency of operations and programmes? ■ Safeguarding of assets? ■ Compliance with laws, regulations, policies, procedures and contracts? 	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">CONFORMS ✓</td> <td style="width: 25%; text-align: center;">PARTIAL</td> <td style="width: 50%; text-align: center;">NOT CONFORMING</td> </tr> </table> <p>Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?</p> <p>CIPFA has issued a <i>Code of Practice on Managing the Risk of Fraud and Corruption</i>, and strongly recommends that it is used as the basis for assessment of how an authority manages its fraud risk.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">CONFORMS ✓</td> <td style="width: 25%; text-align: center;">PARTIAL</td> <td style="width: 50%; text-align: center;">NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL	NOT CONFORMING	CONFORMS ✓	PARTIAL	NOT CONFORMING	<p>integrity as part of individual audits.</p> <p>If assurance work has been completed, the effectiveness and efficiency will be reported on accordingly in final report and in the annual audit report.</p> <p>The safeguarding of council assets is considered as part of individual audits.</p> <p>Compliance with law, regulations, policies and procedures is considered as part of each audit.</p> <p>The council takes part in the NFI process.</p> <p>The IAAM (CAE) regularly tests compliance to the council’s counter fraud policies.</p> <p>Information concerning potential fraudulent activity is shared (National reports and Lancashire Audit Group).</p> <p>The Corporate Enquiry Team will focus on investigating corporate fraud including fraudulent claims for council tax support, falsely claimed council tax and business rate discounts and exemptions and council tax and business rate avoidance.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING						
CONFORMS ✓	PARTIAL	NOT CONFORMING						
Questions to consider								
<p>Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?</p> <p>Are internal auditors alert to other significant risks when undertaking consulting engagements?</p> <p>Do internal auditors incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation’s risk management processes?</p>	<p>There are no such engagements undertaken presently.</p>							
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">CONFORMS N/A</td> <td style="width: 25%; text-align: center;">PARTIAL N/A</td> <td style="width: 50%; text-align: center;">NOT CONFORMING N/A</td> </tr> </table> <p>Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?</p>	CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	<p>The Internal Audit Team facilitate the audit process, identify risk areas and make recommendations to mitigate risks etc within audit reports. Appropriate officers will be made responsible for ensuring that’s risks identified are managed during the year.</p>				
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A						
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">CONFORMS ✓</td> <td style="width: 25%; text-align: center;">PARTIAL</td> <td style="width: 50%; text-align: center;">NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL	NOT CONFORMING					
CONFORMS ✓	PARTIAL	NOT CONFORMING						

<p>2130 Control</p>	<p>Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems regarding the:</p> <ul style="list-style-type: none"> ■ Achievement of the organisation's strategic objectives? ■ Reliability and integrity of financial and operational information? ■ Effectiveness and efficiency of operations and programmes? ■ Safeguarding of assets? ■ Compliance with laws, regulations, policies, procedures and contracts? 	<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	<p>There are no such engagements undertaken presently.</p>
<p>These areas are covered as part of the audit planning process. Audits of key financial systems are conducted every 2/3 years unless there are have been any major changes to systems or controls. Strategic objectives / projects are risk managed at Service Manager level and Audit are often asked to give advice and assurances e.g.P2P Feedback from the Insurance Officer is used to evaluate adequacy of the safeguarding of council assets. Compliance with laws, regulation, policies, procedures and contracts are considered in each audit review.</p>					
<p>6.3 2200 Engagement Planning</p>					
<p>Do internal auditors develop and document a plan for each engagement?</p> <p>Does the engagement plan include the engagements:</p> <ul style="list-style-type: none"> ■ Objectives? ■ Scope? ■ Timing? ■ Resource allocations? 	<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	<p>An audit brief is developed and agreed for each audit review.</p> <p>Each of these criteria are documented in the audit brief.</p>	

Questions to consider	Evidence / comments			
<p>Do internal auditors consider the following in planning an engagement, and is this documented:</p> <ul style="list-style-type: none"> ■ The objectives of the activity being reviewed? ■ The means by which the activity controls its performance? ■ The significant risks to the activity being audited? ■ The activity's resources? ■ The activity's operations? ■ The means by which the potential impact of risk is kept to an acceptable level? ■ The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model? ■ The opportunities for making significant improvements to the activity's governance, risk management and control processes? 	<p>Each of these criteria are either documented in the audit brief or the lead schedules.</p>			
<table border="1"> <tr> <td data-bbox="874 1872 925 2114">CONFORMS ✓</td> <td data-bbox="874 1588 925 1872">PARTIAL</td> <td data-bbox="874 1070 925 1588">NOT CONFORMING</td> </tr> </table> <p>Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following:</p> <ul style="list-style-type: none"> ■ Objectives? ■ Scope? ■ The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)? 	CONFORMS ✓	PARTIAL	NOT CONFORMING	<p>There are no audits performed for parties outside of the organisation.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING		
<table border="1"> <tr> <td data-bbox="1453 1872 1506 2114">CONFORMS N/A</td> <td data-bbox="1453 1588 1506 1872">PARTIAL N/A</td> <td data-bbox="1453 1070 1506 1588">NOT CONFORMING N/A</td> </tr> </table>	CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A		

<p>For consulting engagements, have internal auditors established an understanding with the engagement clients about the following:</p> <ul style="list-style-type: none"> ■ Objectives? ■ Scope? ■ The respective responsibilities of the internal auditors and the client and other client expectations? <p>For significant consulting engagements, has this understanding been documented?</p>	<p>There are no such engagements undertaken presently.</p>
<p>CONFORMS N/A</p>	<p>PARTIAL N/A</p>
<p>NOT CONFORMING N/A</p>	<p>N/A</p>

Questions to consider	Evidence / comments
<p>2210 Engagement Objectives</p> <p>Have objectives been agreed for each engagement?</p> <p>Have internal auditors carried out a preliminary risk assessment of the activity under review?</p> <p>Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?</p> <p>Have internal auditors considered the probability of the following when developing the engagement objectives:</p> <ul style="list-style-type: none"> ■ Significant errors? ■ Fraud? ■ Non-compliance? ■ Any other risks? <p>CONFORMS <input checked="" type="checkbox"/> PARTIAL <input type="checkbox"/> NOT CONFORMING <input type="checkbox"/></p>	<p>Documented in the audit brief.</p> <p>This is completed whilst formulating the audit brief. Auditors will review previous audits, risk registers (if available) and other intelligence before undertaking each review. Risk profiles from other sources may also be used to assist in identifying further key risks.</p> <p>The audit brief document identifies the core risk and the objective.</p> <p>The preliminary risk assessment will ensure each of these are covered.</p>
<p>Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether organisational objectives and goals have been accomplished?</p> <p>If the criteria has been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls?</p> <p>If the criteria has been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria?</p> <p>If the value for money criteria has been referred to, has the use of all the organisation's main types of resources been considered, including money, people and assets?</p>	<p>The audit briefs are shared with Audit Committee members allowing such an evaluation to be undertaken when the audit report is published. A control matrix is used to evidence that all risks identified have been tested and that adequate controls are in place.</p> <p>There are no instances where the criteria have been deemed inadequate.</p> <p>The 'value for money' aspect of any service / control is considered during each review.</p> <p>If there has been any work on VFM this will be documented within the report.</p>

CONFORMS ✓	PARTIAL	NOT CONFORMING	
Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?			The job description of the IAAM (CIA) sets out the requirement of the role; in particular around governance, risk management and internal control.
Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives?			In addition, the job description refers to compliance with the PSIAS which both organisations comply with.
CONFORMS ✓	PARTIAL	NOT CONFORMING	
2220 Engagement Scope			
Is the scope that is established for each engagement generally sufficient to satisfy the engagement's objectives?			Agreed at the start of the audit. If during the audit the scope has to be extended to ensure the objectives of the audit are met, this is agreed with the Head of Governance (CAE) as it is likely to have resource implications.
Does the scope for each engagement include consideration of relevant systems, records, personnel and physical properties?			The audit brief document identifies the systems, records, premises and personnel the auditor will require access to.
Does this consideration include areas under the control of outside parties, where appropriate?			Yes
CONFORMS ✓	PARTIAL	NOT CONFORMING	
Questions to consider			
Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?			Evidence / comments There have been no such consulting opportunities that have arisen during an assurance engagement.
Where significant consulting opportunities have arisen during an assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting standards?			
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	

<p>For each consulting engagement, was the scope of the engagement generally sufficient to address any agreed-upon objectives?</p> <p>If the internal auditors developed any reservations about the scope of a consulting engagement while undertaking that engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement?</p> <p>During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements?</p> <p>During consulting engagements, were internal auditors alert to any significant control issues?</p>	<p>There are no such engagements undertaken presently.</p>						
<table border="1"> <tr> <td>CONFORMS</td> <td>N/A</td> <td>PARTIAL</td> <td>N/A</td> <td>NOT CONFORMING</td> <td>N/A</td> </tr> </table> <p>2230 Engagement Resource Allocation</p> <p>Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of each engagement based on:</p> <p>a) The nature and complexity of the individual engagement?</p> <p>b) Any time constraints?</p> <p>c) The resources available?</p>	CONFORMS	N/A	PARTIAL	N/A	NOT CONFORMING	N/A	<p>This is agreed when formulating the annual audit plan. The IAAM (CAE) is notified of any changes to the nature of the work, time constraints and resources available once the audit brief has been agreed</p>
CONFORMS	N/A	PARTIAL	N/A	NOT CONFORMING	N/A		
<table border="1"> <tr> <td>CONFORMS</td> <td>✓</td> <td>PARTIAL</td> <td></td> <td>NOT CONFORMING</td> <td></td> </tr> </table> <p>2240 Engagement Work Programme</p> <p>Have internal auditors developed and documented work programmes that achieve the engagement objectives?</p> <p>Do the engagement work programmes include procedures for:</p> <ul style="list-style-type: none"> ■ Identifying information? ■ Analysing information? ■ Evaluating information? ■ Documenting information? <p>Were work programmes approved prior to implementation for each engagement?</p>	CONFORMS	✓	PARTIAL		NOT CONFORMING		<p>The auditor will plan the work required to meet the objectives of the audit. Standard templates are in place for this purpose.</p> <p>The detailed analysis and testing schedules will document the objective, the information required, the testing completed, the finding and the overall conclusions and recommendations.</p> <p>After the Audit Committee have approved the annual audit plan for the forthcoming year, the Auditor will agree the work programme for each quarter with the IAAM.</p>
CONFORMS	✓	PARTIAL		NOT CONFORMING			

Were any adjustments required to work programmes approved promptly?	CONFORMS ✓	PARTIAL	NOT CONFORMING	Occasionally, work programmes are adjusted to take into consideration urgent work or investigations.
Questions to consider				Evidence / comments
6.4 2300 Performing the Engagement				
The questions in this section seek to confirm that internal auditors analyse, evaluate and document sufficient, reliable, relevant and useful information to support engagement results and conclusions.				
2310 Identifying Information				
<p>Do internal auditors generally identify (sufficient, reliable, relevant and useful) information which supports engagement results and conclusions?</p> <p>Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.</p>				<p>Checks are made during a full audit review by the IAAM (CAE) that the objectives of the audit have been achieved and that there is sufficient evidence to support any findings, conclusions and the overall opinion.</p> <p>Review notes are provided to the Auditor after each review if further work is required or certain areas require clarification.</p> <p>Review notes will show if further information is required to support findings or if evidence is not relevant or reliable.</p>
CONFORMS ✓				
2320 Analysis and Evaluation				
Have internal auditors generally based their conclusions and engagement results on appropriate analyses and evaluations?				Confirmed by the IAAM (CAE) for each audit performed by the Auditor.
CONFORMS ✓				
Have internal auditors generally remained alert to the possibility of the following when performing their individual audits, and has this been documented:				The key risks around these areas are identified at the start of the audit. The Principal Auditor is experienced in the areas she is required to audit throughout the council and remains alert to any weaknesses / control failings. Documented in standardised working papers.
<ul style="list-style-type: none"> ■ Intentional wrongdoing? ■ Errors and omissions? ■ Poor value for money? 				

<ul style="list-style-type: none"> ■ Failure to comply with management policy? ■ Conflicts of interest? 	CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>2330 Documenting Information</p>				
<p>Have internal auditors documented the relevant information required to support engagement conclusions and results?</p> <p>Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached?</p>				<p>Standardised reports are used to document conclusions and findings along with a management action plan.</p> <p>A file review is conducted by the IAAM (CAE) to ensure working papers are referenced correctly and the file contains sufficient evidence to support any findings and the overall opinion.</p>
CONFORMS ✓				PARTIAL
CONFORMS ✓				NOT CONFORMING
<p>Questions to consider</p>				<p>Evidence / comments</p>
<p>Does the CAE control access to engagement records?</p> <p>Has the CAE obtained the approval of senior management and/or legal counsel as appropriate before releasing such records to external parties?</p> <p>Has the CAE developed and implemented retention requirements for all types of engagement records?</p>				<p>Access rights are documented in the Audit Charter. The audit reports state that the working papers can be viewed on request.</p> <p>Audit files have not been released to external parties other than the council's External Auditor.</p> <p>Information Asset Registers document the required retention periods for all audit records.</p>
CONFORMS ✓				PARTIAL
CONFORMS ✓				NOT CONFORMING
<p>Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?</p>				<p>Retention periods are consistent with organisational and regulatory guidelines. At present audit files are retained for 7 years (6 plus current) in accordance with the Government Classification Scheme.</p>
<p>2340 Engagement Supervision</p>				
<p>Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?</p> <p>Is appropriate evidence of supervision documented and retained for each engagement?</p>				<p>File reviews, feedback and performance appraisals are used to ensure that training or development issues are highlighted.</p> <p>File reviews and performance appraisal documents are retained evidencing supervision.</p>
CONFORMS ✓				PARTIAL
CONFORMS ✓				NOT CONFORMING

6.5 2400 Communicating Results			
The questions in this section seek to confirm that internal auditors communicate the results of engagements in an appropriate way.			
2410 Criteria for Communicating			
Do the communications of engagement results include the following:	Audit reports are issued as appropriate to Directors, Heads of Service, key operational staff with the Audit Committee and the External Auditor reviewing all audit reports.		
<ul style="list-style-type: none"> ■ The engagement's objectives? ■ The scope of the engagement? ■ Applicable conclusions? ■ Recommendations and action plans, if appropriate? 	A standardised report format is used ensuring that each of the criteria is communicated.		
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">CONFORMS ✓</td> <td style="width: 50%;">PARTIAL NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL NOT CONFORMING	
CONFORMS ✓	PARTIAL NOT CONFORMING		
Do internal auditors generally discuss the contents of the draft final reports with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?	A closure meeting is arranged with the relevant officers to agree factual accuracy, findings and agree actions.		
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">CONFORMS ✓</td> <td style="width: 50%;">PARTIAL NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL NOT CONFORMING	
CONFORMS ✓	PARTIAL NOT CONFORMING		
<p>If recommendations and an action plan have been included, are recommendations prioritised according to risk?</p> <p>If recommendations and an action plan have been included, does the communication also state agreements already reached with management, together with appropriate timescales?</p> <p>If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?</p>	<p>Lancaster recommendations are given a priority risk rating of 1 to 3. Level 1 recommendations require immediate action and level 3 recommendations have no set timescales and include suggestions for improvements / efficiencies in service delivery.</p> <p>Lancashire County Council recommendations are prioritised as Extreme, High, Medium or Low and appropriate timescales can be agreed with the auditor.</p> <p>The action plan identifies the management response and timescales for action.</p> <p>The management response would only identify areas of disagreement where appropriate.</p>		
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">CONFORMS ✓</td> <td style="width: 50%;">PARTIAL NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL NOT CONFORMING	
CONFORMS ✓	PARTIAL NOT CONFORMING		

Questions to consider		Evidence / comments
Subject to confidentiality requirements and other limitations on reporting, do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice?	CONFORMS ✓	Evidence is disclosed in support of the audit conclusion subject to confidentiality requirements.
When an opinion or conclusion is issued, are the expectations of senior management, the board and other stakeholders taken into account?	PARTIAL	The internal auditor's opinion and conclusions are clearly visible.
CONFORMS ✓	NOT CONFORMING	Closure meetings are held with clients and audit reports are scrutinised by the Financial Services Manager (Section 151 Officer) and reported to the Audit Committee.
Opinions should be supported by sufficient, reliable, relevant and useful information (in line with responses to questions for PSIAS 2300).	CONFORMS ✓	Confirmed by the IAAM (CAE) who reviews all audit files.
Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?	PARTIAL	Satisfactory performance would be reflected in the overall conclusion issued.
CONFORMS ✓	NOT CONFORMING	The engagement results are not released to parties outside of the organisation other than the council's External Auditors.
When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	PARTIAL	Internal Audit have not been asked to provide assurance to any partnership organisations.
CONFORMS ✓	NOT CONFORMING	The engagement results are not released to parties outside of the organisation other than the council's External Auditors.
Where the CAE has been required to provide assurance to other partnership organisations, or arm's length bodies such as trading companies, have the risks of doing so been managed effectively, having regard to the CAE's primary responsibility to the management of the organisation for which they are engaged to provide internal audit services?	PARTIAL	Internal Audit have not been asked to provide assurance to any partnership organisations.
CONFORMS N/A	PARTIAL N/A	Internal Audit have not been asked to provide assurance to any partnership organisations.
2420 Quality of Communications		
Are internal audit communications generally accurate, objective, clear, concise, constructive, complete and timely?	CONFORMS ✓	All documents are reviewed by the IAAM (CAE). Review notes are provided to correct any work that does not meet quality standards.
CONFORMS ✓	PARTIAL	Closure meetings are also used to agree factual accuracy of the report and findings.
CONFORMS ✓	NOT CONFORMING	Feedback is used to ensure auditees are happy with how the audit was conducted.

	<p>The client is provided with an opportunity to challenge whether they consider the report to be constructive as part of the closure meeting and again by attending Audit Committee if appropriate. The timeliness of reports is monitored and reported to Audit Committee.</p>
<p>2421 Errors and Omissions</p> <p>If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?</p>	<p>The closure meeting is designed to identify and resolve any significant errors or omissions; however the report would be re-issued where necessary.</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p>
<p>NOT CONFORMING</p>	
<p>2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'</p> <p>Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement?</p>	<p>Reported as part of the Annual Internal Audit Report.</p>
<p>CONFORMS ✓</p>	<p>PARTIAL</p>
<p>NOT CONFORMING</p>	
<p>Questions to consider</p>	
<p>2431 Engagement Disclosure of Non-conformance</p>	
<p>Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:</p> <ul style="list-style-type: none"> ■ The principle or rule of conduct of the <i>Code of Ethics or Standard(s)</i> with which full conformance was not achieved? ■ The reason(s) for non-conformance? ■ The impact of non-conformance on the engagement and the engagement results? 	<p>No specific engagements have been impacted on by non-compliance with the PSIAS.</p>
<p>CONFORMS N/A</p>	<p>PARTIAL N/A</p>
<p>NOT CONFORMING N/A</p>	

2440 Disseminating Results		
Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?		Reporting arrangements are documented within the Audit Charter.
CONFORMS ✓	PARTIAL	NOT CONFORMING
Has the CAE communicated engagement results to all appropriate parties?		Audit reports are issued as appropriate to Directors, Heads of Service and key operational staff with the Audit Committee and the External Auditor receiving all audit reports. The Audit Working Papers also have a pre-populated distribution list.
CONFORMS ✓	PARTIAL	NOT CONFORMING
Before releasing engagement results to parties outside the organisation, did the CAE:		Engagement results have not been released to parties outside the organisation other than the council's External Auditors.
■	Assess the potential risk to the organisation?	
■	Consult with senior management and/or legal counsel as appropriate?	
■	Control dissemination by restricting the use of the results?	
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A
Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?		There are no such engagements undertaken presently.
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A

Questions to consider	Evidence / comments	
<p>2450 Overall Opinion</p>		
<p>Has the CAE delivered an annual internal audit opinion?</p> <p>Does the annual internal audit opinion conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control?</p> <p>Does the annual internal audit opinion take into account the expectations of senior management, the board and other stakeholders?</p> <p>Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information (having regard to the answers to questions on PSIAS 2300)?</p>	<p>Presented annually to the Audit Committee.</p> <p>The annual audit report is scrutinised by the Financial Services Manager (Section 151 Officer) and presented to Audit Committee for consideration.</p> <p>See report presented to Audit Committee in June 2021</p>	
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>Does the communication identify the following:</p> <ul style="list-style-type: none"> ■ The scope of the opinion, including the time period to which the opinion relates? ■ Any scope limitations? ■ The consideration of all related projects including the reliance on other assurance providers? ■ The risk or control framework or other criteria used as a basis for the overall opinion? <p>Where a qualified or unfavourable annual internal audit opinion is given, are the reasons for that opinion stated?</p> <p>Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement?</p>	<p>All areas documented in the Annual Audit report.</p> <p>In providing an overall opinion on the council's system of internal control, it should be noted that assurance can never be absolute. Internal audit can only provide reasonable assurance that there are no major weaknesses in the areas reviewed.</p> <p>Where a qualified or unfavourable opinion was given this would be fully explained in the annual audit report.</p> <p>See annual governance statement and section entitled 'review of effectiveness'.</p>	
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>

<p>Does the annual report incorporate the following:</p> <ul style="list-style-type: none"> ■ The annual internal audit opinion? ■ A summary of the work that supports the opinion? ■ A disclosure of any qualifications to the opinion? ■ The reasons for any qualifications to the opinion? ■ A disclosure of any impairments or restriction in scope? ■ A comparison or work actually carried out with the work planned? ■ A statement on conformance with the PSIAS? ■ The results of the QAIP? ■ Progress against any improvement plans resulting from the QAIP? ■ A summary of the performance of the internal audit activity against its performance measures and targets? ■ Any other issues that the CAE judges is relevant to the preparation of the governance statement? 	<table border="1"> <tr> <td>CONFORMS ✓</td> <td>PARTIAL</td> <td>NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL	NOT CONFORMING	<p>See annual audit report considered by the Audit Committee. Internal review feedback forms are referred to along with a comparison of the work actually carried out compared to that planned.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING			
<p>Questions to consider</p>					
<p>6.6 2500 Monitoring Progress</p>					
<p>The questions in this section seek to confirm that a system is in place to monitor effectiveness of audit communications results to management, including appropriate follow up when no action is taken by management. Has the CAE established a process to monitor and follow up management actions to ensure that agreed actions have been effectively implemented or that senior management have accepted the risk of not taking action?</p>	<p>Evidence / comments</p>				

<p>Where issues have arisen during the follow-up process (for example, where agreed actions have not been implemented), has the CAE considered revising the internal audit opinion?</p> <p>Do the results of monitoring management actions inform the risk- based planning of future audit work?</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	<p>See annual internal audit opinion for more details.</p> <p>If there has been little progress made in implementing recommendations, follow-up reviews will continue until the assurance level has been raised to substantial as per the Audit Charter.</p>
<p>Does the internal audit activity monitor the results of consulting engagements as agreed with the client?</p>	<p>PARTIAL N/A</p>	<p>NOT CONFORMING N/A</p>	
<p>6.7 2600 Communicating the Acceptance of Risks</p>			<p>This section considers the arrangements which apply if the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation.</p> <p>Situations of this kind are expected to be rare. PSIAS 2600 sets out communication requirements for the CAE. It is not the responsibility of the CAE to resolve the risk.</p>
<p>If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	
<p>If, after discussion with senior management, the CAE continues to conclude that the level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board?</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	

AUDIT COMMITTEE**Internal Audit Annual Report 2020-21****15 June 2021****Report of the outgoing Internal Audit and Assurance
Manager****PURPOSE OF REPORT**

To approve the Internal Audit Annual report for 2020/21.

This report is public

RECOMMENDATIONS

1. **That the outgoing Internal Audit and Assurance Manager's (IAAM) Internal Audit Annual Report for 2020/21 be accepted and considered by the Audit Committee as a key source of assurance which will be reported in the Annual Governance Statement (AGS), to be considered by the Committee at a later stage.**

1.0 Introduction

- 1.1 The Internal Audit Annual Report is produced in order to meet the requirements of the Public Sector Internal Audit Standards and to assist in meeting the Accounts and Audit Regulations 2015. The report provides details of the work carried out by the Internal Audit function in order for the IAAM to issue an annual opinion on the overall adequacy and effectiveness of the organisations framework of governance, risk management and internal control.

2.0 Proposal Details

- 2.1 The Internal Audit Annual Report attached at Appendix A seeks to demonstrate that effective leadership of audit and governance are in place across the organisation and that the necessary arrangements are in place to maintain a sound system of internal control.

3.0 Details of consultation

- 3.1 No specific consultation has been undertaken in compiling this report. The content of this report and the overall opinion is supported by the work of Internal Audit during 2020/21.

4.0 Options and options analysis (including risk assessment if applicable)

- 4.1 The proposal is that the Committee accepts the IAAM's Internal Audit Annual Report as a contribution to the overall assessment of the internal control environment and the AGS. This report should be read in conjunction with the outgoing statement of the Chief Internal Auditor and this has been published with the minutes of the Audit Committee on 28 March 2021.

5.0 Conclusion

- 5.1 The work of internal audit seeks to provide assurance to the council as to the appropriateness and effectiveness of its internal control, risk management and corporate governance arrangements. The IAAM's opinion in relation to these areas, based on the work completed during 2020/21 is attached at Appendix A.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

None arising directly from this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Internal Audit Plan 2020/21

Outgoing Chief Internal Auditor's Statement
(28 March 2021 Audit Committee)

Contact Officer: Joanne Billington

Telephone: N/A

E-mail: N/A

Ref:

INTERNAL AUDIT ANNUAL REPORT 2020/21

The Internal Audit and Assurance Section is responsible to the Section 151 Officer for carrying out a continuous examination of the accounting, financial and other operations of the council in accordance with Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2015. The latter states that **“A relevant authority must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk”**.

Members of the Audit Committee should note that copies of internal audit reports are published on the council's intranet. Access to the supporting files is available to members of the Audit Committee on request.





Internal Audit continues to provide the council with the necessary assurance about its various activities and associated systems, as outlined in the council's Internal Audit Strategy and Audit Charter. In addition, the Principal Auditor has recently carried out a self-assessment of effectiveness of internal audit, using the Public Sector Internal Audit Standards and the Local Government Applicate Note. The results of this self-assessment can be found later in the agenda. The council's next independent peer review is scheduled to take place in early 2023.




The 2020/21 audit plan (approved by the Audit Committee on the 19 February 2020) consisted of 305 audit days (1.2 FTE). In previous years, the audit plan has solely been completed by the in-house team with reviews being carried out by the Internal Audit and Assurance Manager to ensure that quality and standards are maintained. However, following a re-structure in 2018/19 it was agreed with the Section 151 Officer and the Audit Committee that external audit providers would be used, to assist with the completion of the audit plan should it be deemed necessary.




Internal feedback forms continue to be distributed after each audit review as part of the Internal Audit Quality Assurance Improvement Programme and feedback received demonstrates that Internal Audit continue to be a well-received, appreciated internal service, that is considered to 'add value' and 'improve controls and processes' across the council.






Audit Work Performed in 2020 / 2021



Summarised below are the reviews that have been performed and reports issued in 2020/21. Final reports are published in full on the council's intranet site.

Level of assurance	Image	Definition
Maximum		The Authority can place high levels of reliance on the arrangements/controls. Best practice is demonstrated in some or all areas.
Substantial		The Authority can place substantial (i.e. sufficient) reliance on the arrangements/controls. Only relatively minor control weaknesses exist.
Limited		The Authority can place only limited reliance on the arrangements/controls. Significant control issues need to be resolved.
Minimal		The Authority cannot place sufficient reliance on the arrangements/controls. Substantial control weaknesses exist.

2018/19 Audit Plan Work completed in 2020/21			
TITLE	STATUS	Level of Assurance	Summary
Recovery of Legal Fees and Court Costs	Final Report Issued May 2021	Limited 	Owing to an overall limited assurance opinion being provided, this piece of work should be followed up in 3 months to ensure that control weaknesses identified per the action plan have been fully implemented raising the assurance opinion to substantial.
Council Housing Assets	N/A	N/A	This piece of work was due to be completed jointly with Lancashire County Council. A start-up meeting took place. However, owing to the Covid-19 pandemic, this piece of work was put on hold owing to the auditor being re-deployed to Business Support. Whilst the Principal Auditor resumed normal audit work in September 2020, Lancashire County Council have stated that they will be unable to assist with this work owing to limited resources. This piece of work has not been rolled to the 2021/22 audit plan and a judgement needs to be made following the completion of the service's operational risks register as to whether this work is needed.
2019/20 Audit Plan Work Completed in 2020/21			
VAT	Final Report Issued November 2020	Substantial 	Audit completed by Principal Auditor.
Procure to Pay (P2P) – Project Assurance Work	No Report Issued	Limited 	<p>Following the successful implementation of the P2P project it has been agreed with the Exchequer Services Manager that a piece of audit work would be carried out in 2021/22 to ensure that the system is working as intended and outcomes are as expected. A piece of work has been included in the 2021/22 Audit Plan for Q1.</p> <p>For the purpose of this annual audit report, an opinion of 'limited' has been given on the basis that the project is still in its infancy and more development and testing is required before the P2P system is fully implemented.</p>

2019/20 Audit Plan Work Completed in 2020/21			
Payroll e-budgeting - Project Assurance Work	No Report Issued	Substantial 	<p>Internal Audit has been involved in this project from the outset, up until the point that it was stalled owing to the pandemic. Whilst a 'dummy budget' has been produced and balanced, the software has yet to be rolled out fully. Following a number of staffing changes within Financial Services, there is now no lead officer to drive this project forward to implementation and there is a concern that the Financial Services Team will continue to use previous budget setting processes.</p> <p>If the e-budgeting software tool is to be used, a lead officer needs to be appointed and the software rolled out enabling the 2021/22 budget exercise to be completed.</p> <p>For the purpose of this annual audit report, an opinion of 'Substantial' has been given on the basis that the software has been tested and produced a successfully balanced budget.</p>
Fixed Asset Register	Final Report Issued November 2020	Substantial 	<p>Audit completed by Lancashire County Council.</p>
Data Protection - Policy and Process Review	Final Report Issued May 2020	Limited 	<p>Audit completed by Merseyside Internal Audit Service. The Information Governance Manager has confirmed that owing to the ongoing pandemic minimal progress has been made implementing the action plan produced in May 2020. Given a number of actions require collaboration with various officers across the council and since the pandemic these officers have been re-deployed, there has been minimal capacity to consider the recommendations made. Given the high number of recommendations made and the risk to the council both financial and reputational if the action plan is not implemented, this has been highlighted as a quarter 1 priority in the 2021/22 Audit Plan.</p> <p>It should be noted that the Information Governance Manager has recently been given temporary responsibility for progressing and monitoring risk management following the resignation of the Principal Auditor. There is a significant concern that there is not sufficient capacity within this post or the Information Governance Team to take on this additional responsibility and execute it successfully, whilst also implementing the extensive action plan that was agreed.</p>

Follow-up work completed in 2020/21			
Procurement and Project Management	Verbal update provided November 2020	Limited 	Whilst an updated Procurement Strategy and Contract Procedure Rules have been approved by the Council, the Procurement Manager has confirmed that limited progress has been made in relation to re-launching the 'procurement service' and tackling the contract management training issues identified. It is not clear which officers have undertaken training as take-up and participation has not been recorded/monitored. Given the limited assurance and the number of outstanding actions this has been highlighted as a Quarter 1 priority in the 2021/22 Audit Plan.
Dog Seizure and Kennelling Contract	Final Report Issued January 2021	Substantial 	Audit completed by Principal Auditor.
Insurance	Verbal update provided May 2021	Limited 	<p>The original piece of work was completed in November 2019 and despite several attempts over the last 18 months to work with the Insurance Officer to raise the assurance opinion to significant, the overall assurance opinion still remains at limited given that two grade one recommendations are still outstanding. It is understood that the Insurance Officer is liaising with Exchequer Services to help with facilitating these two outstanding actions, which once successfully completed will see the overall assurance opinion raised to 'substantial'.</p> <p>As per the Audit Charter, given this piece of work has remained limited after two follow-ups, the Audit Committee may wish to seek an explanation from the Insurance Officer or their Line Manager as to why the actions remain outstanding.</p>
Payroll	Final Report Issued January 2021	Substantial 	Audit completed by Principal Auditor.
Asbestos Management - Council Housing	Final Report Issued December 2020	Substantial 	Audit completed by Principal Auditor.

2020/21 Audit Plan Work			
TITLE	STATUS	Level of Assurance	Summary
Job Evaluation	N/A	Limited 	<p>As agreed with the Section 151 officer, this piece of work is to be superseded by the HR Assurance follow-up work that is scheduled for quarter 4 in the 2021/22 audit plan, which also identified a number of Job Evaluation (JE) issues that needed to be resolved.</p> <p>For the purpose of this annual audit report, an opinion of 'Limited' has been given on the basis that at the time of writing this overall opinion, it is understood that the Chairman of the Audit Committee had not been updated on the progress of the implementation of the HR Assurance Action plan as previously promised by the Corporate Director of Resources and can provide no assurance that the recommendations made in respect of JE have been actioned or progressed in any way.</p>
Housing Benefit e-claim form (Lancaster)	N/A	N/A	<p>Whilst it was reported in November 2020 that a piece of work on the Housing Benefit e-claim form for Lancaster would be covered in quarter 4 per the 2020/21 audit plan, the Business Support Manager has confirmed that this piece of work is no longer required given that additional payment checks have been introduced and therefore there is no longer a cause for concern.</p>
HR Assurance Work	Final Report Issued October 2020	Minimal 	<p>During September and October 2020, a piece of assurance work relating to Human Resources was undertaken. A minimal overall assurance opinion was given following a significant number of findings and recommendations being made.</p> <p>Whilst a piece of work has been scheduled in quarter 3 - 4 of the 2021/22 audit plan to carry out a review of the effectiveness of new HR procedures and processes, it is concerning that to date the Director of Corporate Services has failed to provide any updates to the Internal Audit and Assurance Manager, the S151 Officer or the Audit Committee Chairman on the progress made in implementing the 35 actions agreed. Given the severity of a number of the recommendations made, it is imperative that this piece of work be brought forward as at present we are unable to provide any assurance on the effectiveness of the HR service. Given this minimal assurance, this should also be documented in the Annual Governance Statement as a 'significant governance issue'.</p>

			<p>It is also understood that a second action plan has since been produced by the Director of Corporate Services to amalgamate the actions agreed per the above internal HR Assurance Audit with the actions resulting from the Grievance that was investigated externally and the expected outcomes from the HR Service review that is currently underway. Given that again neither the Internal Audit and Assurance Manager, the S151 Officer nor the Audit Committee Chairman has had sight of this combined action plan, it is imperative that the original audit action plan and this combined action plan is appropriately reconciled to ensure that the combined action plan suitably addresses all the concerns that were originally raised. There is a concern that the current HR Service review may not address all the recommendations that were originally agreed.</p> <p>It should be noted that evidence supporting the 35 recommendations made within the original audit report has been retained and this can be shared if required in order to provide clarity in relation to each of the findings reported.</p>
2020/21 Audit Plan Work			
National Fraud Initiative	N/A	N/A	Both the bi-annual and the annual Single Person Discount exercises have now been completed as well as an additional exercise relating to the Covid Business Grants, and the Corporate Enquiry Team are in the process of investigating all appropriate matches. The results of which will be reported by the Corporate Fraud Manager in her annual report to the Audit Committee.
Risk Management – Operational	N/A	N/A	<p>Work is continuing at pace to progress the embedding of operational risk management. Following the refresh and approval of the Risk Management Policy in March 2021, the Grace Risk Management system is now being populated with individual services key operational risks, which will assist with future audit planning.</p> <p>See ‘Risk Management’ section below for further details.</p>
Risk Management - Strategic	N/A	N/A	<p>Whilst the council has a Strategic Risk Register, it still requires significant improvement as it currently does not reflect all of the council’s key risks and priorities.</p> <p>See ‘Risk Management’ section below for further details.</p>
2020/21 Audit Plan Work			

<p>Assurance Mapping Exercise</p>	<p>N/A</p>	<p>N/A</p>	<p>An assurance mapping exercise is completed each year to assist with the development of the audit plan and also help identify other assurance streams across the council, other than those provided by Internal Audit that the Chief Internal Auditor can rely on when making and reporting their overall opinion on the council's control framework.</p> <p>Whilst all Service Managers completed and returned their assurance mapping declarations in January / February 2021, following examination it was identified that very few updates had been made from the previous year (2019/20) despite the on-going pandemic. The council is effectively being asked to accept that Service Managers continued to obtain the same additional assurance from other sources (other than internal audit) during 2020/21 and throughout the pandemic. Whilst no validation work has been carried out by Internal Audit to validate the content of these statements as normal, it is highly unlikely, given the pandemic, that this is correct and feasible for all or possibly even the majority of services. In addition to concerns around the reliability of the statements sign off of these declarations has only been completed by one of the Directors. Whilst in previous years a strong reliance has been placed on these declarations, given these concerns, a decision has been made not to place full reliance on these additional assurance streams when formulating the overall opinion on the internal control environment for 2020/21.</p> <p>Assurance mapping is a vital exercise, more so when resources are limited. Therefore it is imperative that both the Executive Team and Service Managers understand the importance of this exercise and participate fully, rather than paying lip service when completing the declarations. This exercise assists when deploying audit resources, prevents duplication of work/effort and also assists the Chief Internal Auditor make an accurate overall opinion which can be relied upon as a source of assurance in the Annual Governance Statement.</p>
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Other audit work undertaken:

Investigations

There have been no internal investigations carried out by Internal Audit or the Corporate Enquiry Team during 2020/21.

Corporate Enquiry Team

The council has a duty to protect public funds and has a shared Corporate Fraud Team with Preston and Fylde Councils. The team is called the Corporate Enquiry Team and its role is to investigate allegations of fraud against the council, undertake pro-active investigations in high risk areas, act as single point of contact between the council and the Department for Work and Pensions fraud team and to participate in multi-agency working to prevent and detect crime with partner agencies. A detailed report of the outcomes will be reported to the Audit Committee and is attached later in this agenda.

Information governance – judgement of security and use of business assets

The council's Information Governance (IG) Team continue to work on compliance with the General Data Protection Regulations which came into force on the 25 May 2018. It was agreed that a piece of audit work would be scheduled as part of the 2019/20 audit plan to obtain an updated position statement on progress made in implementing the action plan from BLS. Merseyside Internal Audit Service, who specialise in data protection work were commissioned to carry out the audit on behalf of Internal Audit. Whilst the original work was completed during the 2019/20 audit year, owing to the Covid-19 pandemic, the results of this piece of work were only received as draft at the time of the last annual report. The draft report and recommendations recognised that significant progress has been made in some areas. However there were still a number of areas that required immediate attention, therefore only 'limited' assurance was provided.

Much of the work required under the recommendations is collaborative and requires significant participation from all council departments. Unfortunately, owing to the need to prioritise the response to the pandemic and the re-allocation of large numbers of staff it has not been possible to progress the action plan to any significant degree. As the pandemic response is cautiously moving towards the recovery phase, it is hoped that significant progress can be made this audit year, providing staffing resource in Information Governance is at least maintained. Based on the limited progression made during 2020/21, again, this needs to be raised as a 'significant concern' in the Annual Governance Statement.

Counter Fraud and Corruption Policies

The council has a number of counter fraud policies in place across the organisation, namely, Raising Concerns Policy, Anti-Fraud, Corruption and Bribery Policy, Anti-Money Laundering Policy and the Sanction Policy. Following the preparation of the 2018/19 Annual Governance Statement it was identified that all the counter fraud policies were out of date and had not been reviewed for some time. It was also identified that the ownership and responsibility for these policies sat in several places, e.g. Human Resources, Legal Services, Internal Audit and Assurance and the

Corporate Fraud Team. To ensure these policies were independently and consistently applied, reviewed and approved by Audit Committee on a regular basis, a decision was made to move all the polices to the control of the council's Corporate Fraud Team, with the exception of the Anti-Money Laundering Policy, which was moved to the Finance Team. This exception was made recognising that the council's Money Laundering Reporting Officer is the council's Section 151 Officer. Prior to the annual review in March 2021, it was identified that the Raising Concerns Policy should be reviewed by Personnel Committee not the Audit Committee as per their Terms of Reference. Therefore this policy was not reviewed as normal with the other counter-fraud polices. Per the minutes of the Audit Committee meeting on the 24 March 2021, the Audit Committee were advised to monitor any significant changes made to this policy given one of the Audit Committee's responsibilities is the oversight of the council's counter-fraud arrangements

The Audit Committee should also note that the Anti-Money Laundering Policy still needs to be reviewed following slight changes to legislation and also changes to the council's Money Laundering Reporting Officer and their Deputy.

Effectiveness of Internal Audit Review

In accordance with the Accounts and Audit Regulations 2015, paragraph 6 (1) requires the relevant body, each financial year to conduct a review of the effectiveness of its system of internal audit. The review recognises the important role that internal audit play in the assurance process and the need to continually ensure that it remains effective. Self-assessments are completed using both the 'Public Sector Internal Audit Standards' and the 'Local Government Application Guidance Note' issued by CIPFA. The self-assessment completed in July 2020 reported to the Audit Committee that 'overall compliance was achieved with only minor observations made'. A number of 'partial' completed actions in relation to risk management were highlighted, some of which have since been actioned, whilst some still remain outstanding. This year's self-assessment was completed by the Principal Auditor before her departure, to accompany the Annual Audit Opinion. The self-assessment covers the period 1 April 2020 to 31 March 2021. At the time of writing this opinion, it is understood that from the 1 June 2021 there is no internal audit service within the council. Therefore a further self-assessment will need to be completed, once a service has been put in place.

In order to comply with the PSIAS an external assessment must be conducted at least once every five years by a qualified independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment in-house with independent external validation. It was agreed by the Lancashire District Chief Auditors group and validated by the Audit Committee, that peer reviews would be used to obtain the independent external validation. Lancaster City Council's last external assessment was completed in March 2018 and the report was presented to the Audit Committee on the 23 May 2018. This reported that overall, the council's Internal Audit Section was fully compliant with the PSIAS with only four points for consideration made, all of which have been considered and implemented where appropriate. The next peer review is scheduled to take place in February 2023. However at the time of writing this report, it is unclear if Lancaster City Council will be able to participate in this round of peer reviews, given there is no Chief Internal Auditor in post or a 'qualified' equivalent within the organsiation to reciprocate the 'peer review' process which has already commenced. This will need

to be addressed as a matter of urgency if the council is to avoid having to seek alternative arrangements to the established peer review process.

Quality Assurance Improvement Programme

In accordance with the PSIAS, the Chief Internal Auditor (Internal Audit and Assurance Manager) must develop and maintain 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. Up until the 31 March 2021, the QAIP programme was as follows;

The internal assessments include the following:

- An annual self-assessment of the effectiveness of the audit service using the PSIAS and CIPFA's Local Government Application Guidance Note; and
- Day-to-day monitoring of compliance with the Definition of Internal Auditing and the Code of Ethics documented within the section's Audit Charter and also in the PSIAS.

External assessments include:

- A 5 yearly independent assessment of compliance to the PSIAS and CIPFA's Local Government Application Guidance Note;
- An annual review of the Council's Annual Governance Statement which accompanies the Statement of Accounts;
- Regular attendance at the Audit Committee by the Council's External Auditor with the opportunity to meet in private with the Committee; and
- External Audit and the Audit Committee's continual review and challenge of all internal audit reports.

Compliance to the Public Sector International Audit Standards (PSIAS)

In April 2014, the International Standard setters developed a comprehensive set of standards (PSIAS) that are expected to be in place within any effective audit organisation. The PSIAS replaced CIPFA's 'Code of Practice for Internal Audit in Local Government'. The PSIAS requires that areas of non-compliance with the PSIAS Definition of Internal Auditing and the Code of Ethics are reported in the Annual Internal Audit report and that significant deviation requires inclusion in the Council's Annual Governance Statement. It should be noted that following the external validation in March 2018 and the self-assessment completed as at the 31 March 2021, there are no areas of non-compliance or deviations to report. However, the AGS for 2020/21 does need to reflect that whilst a self-assessment against the PSIAS and Local Government Application Guidance Note has been completed this year, its content relates to the period 1 April 2020 to 31 March 2021.

Risk Management

Significant work was completed during 2019/20 to strengthen the council's risk management processes across the organisation. A Risk Management Policy was approved by the Audit Committee in November 2019 and a Strategic Risk Register was populated. In February 2020, the council procured and implemented risk management software (GRACE) to assist with the administration of both strategic

and operational risks. Following the procurement of this risk management software a slight amendment was needed to the Risk Management Policy to reflect new processes and this amendment was subsequently agreed by the Audit Committee on 24 March 2021. Since early 2021, the Principal Auditor has been working with service managers across the authority to produce a comprehensive suite of key operational risk registers which are now available in GRACE. These will assist with future audit planning.

Following the resignation of the Principal Auditor, the management of operational risk and the risk registers has been temporarily transferred to the Information Governance Manager. However, given the limited resources already within this team and the extensive GDPR action plan that needs urgent attention also, there is a significant concern going forward that progress in embedding risk management will stall. Regular updates should be brought to the Audit Committee by the Information Governance Manager to allow them to monitor progress and seek the assurances they require in order to fulfil the duties outlined in their Terms of Reference.

Whilst the council has a Strategic Risk Register, it still requires significant improvement as it currently does not reflect all of the council's key risks and priorities. Therefore, Internal Audit have not been able to utilise this risk register to drive and prioritise their audit work as was hoped and reported in previous updates to the Audit Committee. To date, the strategic risk register has been driven by the Internal Audit Team with little / no input from the Executive Team. Responsibility for this register should sit with the Executive Team and as such it is their responsibility to ensure that it is updated on a regular basis and reflects the council's key risks and priorities. In order for Internal Audit to effectively delivery its responsibilities as outlined in the Internal Audit Strategy, significant improvement in this area is needed and it is therefore recommended that this also be documented in the Annual Governance Statement as a significant governance issue.

System of Internal Control

In accordance with the Accounts and Audit Regulations 2015, Internal Audit is required to form an opinion on the adequacy and effectiveness of the council's internal control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified throughout the year.

In providing an overall opinion on the council's system of internal control, it should be noted that assurance can never be absolute. Internal Audit can only provide reasonable assurance that there are no major weaknesses in the areas reviewed. In arriving at an opinion, consideration is given to;

- The findings from the audit work undertaken during the year;
- The amount of audit work undertaken in the year compared with work planned;
- The results of follow up action in respect of audit work;
- Whether or not any significant recommendations have not been accepted by management and the consequent risks;
- The risk management arrangements and the framework of assurance; and
- The production and the issues identified in the Annual Governance Statement.

Internal Audit and Assurance Manager's overall opinion on the council's internal control environment, risk management and governance arrangements

This overall opinion should be read in conjunction with the 'out-going statement of the Chief Internal Auditor' that has been published with the minutes of the Audit Committee held on 28 March 2021.

Following the internal audit work carried out during 2020/21, it is my opinion, that of the work completed the council has 'adequate' controls in place in the majority of the areas examined to be able to maintain an adequate and effective internal control environment. There are several areas where a 'limited assurance' opinion has been given and, in these instances, mitigating action plans have been agreed.

Unfortunately one area of work did receive a 'minimal' assurance opinion and despite it being over seven months since Internal Audit issued their final report, no updates have yet been received as to how the 35 control weaknesses have been or are to be addressed. Whilst audit were informed at the time that a HR Service Review would address all the recommendations made, it would appear that this may not be the case. Therefore this needs to be re-visited immediately. If assurance is not provided to the Section 151 Officer and the Audit Committee Chairman that the control environment has significantly improved and evidence is provided to substantiate this improvement in control, this needs to be documented as a 'significant governance issue' in the Annual Governance Statement.

The temporary 'pause' in audit work owing to the pandemic and the additional HR assurance work did affect the delivery of the audit plan as previously reported to the Audit Committee in November 2020. It was hoped that the assurance mapping exercise would assist me in making my overall opinion on the control environment. However as reported above, I have taken a decision not to place full reliance on these declarations, contra to the approach in previous years, as it would appear that Managers and Directors may not have given them their full attention during the pandemic. It is understandable given the enormous pressure caused by the pandemic that some individuals may not have given this process their full attention but Managers and Directors need to understand going forward that this is a critical measure for the organisation and recommit to the process. This is essential to ensure that the limited audit resources available are utilised effectively and that duplication of work is avoided.

Following the withdrawal of myself from the contractual arrangement with the council to take up a promotion and the resignation of the Principal Auditor, it is understood at the time of writing this report, no firm arrangements had been made for our replacement. This will mean that there is no Internal Audit provision in place from the 1 June 2021. If this is not resolved at the time of agreeing the Annual Governance Statement, this also should to be raised as a 'significant' governance issue.

Risk Management

It is pleasing to report that operational risk management has progressed well during 2020/21, despite the pandemic. Service managers have been responding well to the request to populate risk registers and it is hoped that these registers will drive future audit work. There is a concern that progress may stall going forward given the workload of the Information Governance Manager, therefore it is recommended that

the Audit Committee Chairman requests regular updates in relation to progress on this.

Strategic risk management continues to be an area of concern. Whilst a risk register is in place, it still requires significant improvement as it does not reflect all of the council's key risks and priorities. In addition during 2020/21, Internal Audit were still the drivers of the register with the Executive Team having little / no input into the register's development / update. As in previous years, this needs to be documented in the Annual Governance Statement as a 'significant' governance issue.

Governance Arrangements

Whilst in previous years, I have been responsible for compiling the Annual Governance Statement, it is my understanding that following my departure on the 31 March 2021, the council has yet to start work on the production of the 2020/21 statement and responsibility for this task has not yet been allocated to another officer. This demonstrates a lack of understanding about the importance of this statutory statement which is ultimately designed to document the council's compliance to CIPFA's Delivering Good Governance Framework and evidence to local tax payers and service users that the council maintains high standards of governance.

In summary, going forward, if the areas of weakness identified above in relation to risk management and the overall governance assurance framework are not addressed immediately, there is a concern that serious weaknesses within the organisation may not be identified which could have a detrimental impact on the council.

AUDIT COMMITTEE**Counter Fraud – Annual Report 2020/21****8th June 2021****Report of the Corporate Fraud Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of counter fraud work during the 2020/21 financial year.

This report is public

RECOMMENDATIONS

1. That the report be noted.

1.0 Introduction

1.1 Local Authorities have a statutory duty under section 151 of the Local Government Finance Act 1972 to make arrangements for the proper administration of their financial affairs. As responsibility for Housing Benefit fraud investigation passed to the Department for Work and Pensions on 1st June 2015, the Council made a decision to form a Corporate Fraud Team, shared between Preston, Lancaster and Fylde Councils. There is a duty to have effective controls and procedures in place to prevent, detect and investigate fraud and error in Council Tax Support, Council Tax and Business Rates. The Corporate Fraud, or Corporate Enquiry Team (CET) as it is also known, also works in partnership with the Housing Department and Social Housing providers to investigate tenancy fraud.

1.2 This report details performance and counter fraud activity undertaken by the Fraud Team/Corporate Enquiry Team during 2020/21 in this specialist area of work.

2.0 Background Information

2.1 Early in 2015, the Council supported a bid by Preston City Council for funding from the Department for Communities and Local Government (DCLG) to set up a shared Corporate Enquiry Team, with the partners being Preston City Council, Lancaster City Council and Fylde Borough Council. The bid was successful and £125,750 was awarded towards the cost. This team effectively replaced the former Benefit Fraud Team hosted by Preston City Council, with six staff from the share service transferred to the Department for Work and Pensions (“DWP”) on 1st June 2015.

2.2 At the same time, the Corporate Enquiry Team was established and consists of seven staff, including a Manager, one full time Investigator, one part time Investigator, one full time Compliance Officer, one full time Enforcement Officer/Investigator, two

Administrative Officers and a part time Apprentice. The staff continue to be employed by Preston City Council and resources are shared between the three authorities, giving Lancaster full time equivalent staff (FTE) of Manager (0.4 fte), Investigator (1.0 fte) and Administrative Officer (1.0 fte).

- 2.3 The objectives of the Corporate Enquiry Team are to:-
- Protect public funds
 - Undertake fraud prevention measures
 - Detect and stop fraud
 - Increase fraud awareness
 - Implement sanctions in accordance with Council prosecution policies
 - Ensure that investigations comply with the regulatory environment
 - Recover properties from fraudsters to enable re-housing of those identified as most in need of social housing
 - Encourage a strong culture of good performance in relation to cost
 - Promote the principles of fairness, equality of opportunity, social inclusion and poverty reduction through service provision
 - Embrace partnership working to enable the delivery of an excellent service, whilst achieving savings based on economies of scale, reductions in duplication and financial savings to the authority
- 2.4 The Corporate Enquiry Team strives to prevent and detect as much Council Tax Support fraud as possible, working with outside agencies such as the Department for Work and Pensions, HM Revenues & Customs, Police and Immigration when appropriate. The team has signed up to joint working with the DWP on cases involving Council Tax Support and national benefits. The project commenced on 29th April 2019 although, Covid19 has seen delays to the progression of this due to the redeployment of DWP fraud staff to other welfare benefit services.
- 2.5 The team acts as Single Point of Contact (SPOC) for providing information on Housing Benefit investigations to DWP.
- 2.6 The team has an excellent working relationship with Lancashire Police, participating in Operation GENGA, a multi agency project to help tackle serious and organised crime. This demonstrates our commitment to tackle fraud on a larger scale and other related crimes in partnership with external agencies
- 2.7 The team has an excellent working relationship with Lancashire Police and acts as SPOC for Police Data Protection Act requests.
- 2.8 The Corporate Enquiry Team are active members of the National Anti-Fraud Network (NAFN). NAFN's key services include:
- Acquiring data legally, efficiently and effectively from a wide range of information providers;
 - Acting as the hub for the collection, collation and circulation of intelligence alerts;
 - Providing best practice examples of process, forms and procedures.
- 2.9 The team are also members of the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre in order to share best practice and receive information on new counter fraud initiatives. They work closely with other Lancashire and Greater Manchester Local Authorities, meeting regularly to discuss common problems and best practice.

3.0 Performance

3.1 Performance data is detailed as below:

	Year	Target	Achieved
Overpayments	2020/21	£110,000	£133,787.30

Financial Source	Overpayments	Weekly Savings
Council Tax Support	£6,442.98	£123.93
Council Tax Benefit	£0.00	£0.00
Housing Benefit	£10,252.30	£575.67
Council Tax	£24,406.17	£396.46
Business Rates	£12,685.85	£182.77
Covid Business Grant	£80,000.00	£0.00
Totals	£133,787.30	£1,278.83 (X52 = £66,499.16)

3.2 From 1st April 2020 to 31st March 2021 the Corporate Enquiry Team identified overpayments of £133,787.30

3.3 From 1st April 2017 the team has introduced an additional methodology to identify counter fraud performance. When a claim for an allowance, discount, reduction or exemption ends or reduces as a result of an intervention by the Corporate Enquiry Team the value of the intervention is not just the amount of any overpayment that has occurred. It is recognised that there is also a “future” saving made by preventing further incorrect payments being made. In these cases the weekly amount of reduced entitlement to an allowance, discount, reduction or exemption that is applied following fraud intervention should be multiplied by 52. It is reasonable to believe that the award would have continued unchanged for an average of a full year had no intervention taken place. This was agreed as an appropriate performance measure by the Lancashire and Greater Manchester Fraud Investigators Group. The weekly figure identified for Lancaster City Council is £1,278.83, multiplied by 52 gives total “future” savings for 2020/21 of £66,499.16.

3.4 The team worked with Lancaster City Council Housing Department to recover one council housing property during the course of the year, with an additional future saving of £18,000.00 based on a temporary accommodation cost saving of £18,000.00 per property per year.

- 3.5 The Corporate Enquiry Team has participated in the annual National Fraud Initiative (NFI) data matching exercise, including investigating Council Tax data matches where single person discount is in place, but more than one adult is listed on the electoral register for the property.
- 3.6 The team review 100% of all “right to buy” applications for Council Housing properties made to the Council however, during the year 2020/21 all home visits were suspended as a result of Covid19 which temporarily altered this arrangement.
- 3.7 A management checking regime is in place, structured to monitor performance and compliance with legislation. This process includes:-
- 1-2-1’s with staff to discuss the officer’s full caseload, giving advice and direction, identifying any inactive cases, together with any training needs;
 - A review of all “Interviews Under Caution” before prosecution is considered;
 - A full management check on all sanction cases; and regular checks are undertaken of fraud officer’s pocket notebooks.
- 3.8 Surveillance is only authorised in appropriate cases where considered necessary and proportionate, in line with the Regulation of Investigatory Powers Act (RIPA). No surveillance took place during 2020/21. From 10th June 2019 the legislation governing surveillance changes to the Investigatory Powers Act (IPA).
- 3.9 Covid19 had a significant impact on the teams operations, from February 2020 all formal action was suspended. The team was unable to undertake formal interviews under caution, visit members of the public (witnesses, suspects etc) or pursue criminal proceedings due to the pandemic. The team has assisted Business Rates with the administration of business rate grants and the processing of cabinet office Spotlight checks as part of the prepayment assurance checks.
- 3.10 Covid19 saw a new area of fraud for the team to investigate with the introduction of the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund on the 17th March 2020 along with other Council administered grants. Investigations in this regard are both pre and post payment.

4 Details of Consultation

- 4.1 No specific consultation has been undertaken in compiling this report.

5 Options and Options Analysis (including risk assessment)

- 5.1 None – the report is for noting.

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

The Benefits Service has a major impact upon the wellbeing of the poorer members of the local community. The Council is committed to protecting the gateway to Benefits and Council Tax Support with a service that is accessible to everyone in the community, ensuring that customers receive all the allowances to which they are entitled. As an essential part of this service provision, the prevention and detection of fraud remains high on the Council’s agenda.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report. However, the Corporate Enquiry Team has generated savings for the Council from their Corporate Fraud Shared Service work, and delivers value for money.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

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Ref:

AUDIT COMMITTEE**Statement of Accounts 2019/20 & 2020/21 Update
9 June 2021****Report of Chief Finance Officer****PURPOSE OF REPORT**

To provide the Committee with an updated position regarding the conclusion of the 2019/20 audit of the Statement of Accounts and details of progress in the preparation of the Statement of Accounts for the year ended 31st March 2021.

This report is public.

RECOMMENDATIONS

The Audit Committee is recommended to note the progress in the following areas

- 1. The audit of the Statement of Accounts for the year ended 31st March 2020 and the matters arising to date.**
- 2. The preparation of the Statement of Accounts for the year ended 31st March 2021.**

1.0 INTRODUCTION

1.1 Members will recall the requirements and timelines for the approval of a Local Authority's Statement of Accounts have changed. Having considered the impact of the COVID-19 pandemic and in consultation with key stakeholders, the Ministry of Housing, Communities and Local Government (MHCLG) introduced the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 which have amended the Accounts and Audit Regulations 2015.

Publication & Amendments Effecting 2019/20 Statement of Accounts
1.2 In accordance with the amended Regulations, the draft Accounts were required to be published on the Council's website and submitted for audit by 31 August 2020 rather than 31 May 2020 and the timeline for the conclusion of the audit was 30 November 2020 rather than 31 July 2020.

Publication & Amendments Effecting 2020/21 Statement of Accounts
1.3 Published on the Council's website and submitted for audit by 31 July 2021 rather than 31 May 2020 and the timeline for the conclusion of the audit 30 September 2020 rather than 31 July 2020.

2.0 2019/20 STATEMENT OF ACCOUNTS UPDATED POSITION

Publication

- 2.1 The draft Statement of Accounts 2019/20 were published on the Council's external website on 28 August 2020, ahead of the required deadline. Although Members previously received notification of publication and a PDF version of the draft financial statements they can be viewed via the attached link <https://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

Member Training

- 2.2 Training on the statement of accounts was provided in 2 sessions. The first session 27 August introduced the financial reporting framework, the roles of the Chief Finance Officer, those Charged with Governance and the External Auditor and the key elements of the financial statements. The second session 25 November 2020 delivered more detailed training focusing on the interlinkages between the various statements and their supporting notes, also significant balances, accounting adjustments and policies as well financial performance.

External Audit

- 2.3 Due to the COVID-19 pandemic the initial planning audit was halted mid-March 2020 as the Audit Team were forced to withdraw from the Town Hall in line with Government advice and Council staff were diverted to support other areas. Audit planning and preliminary statement of accounts testing resumed in December but was halted in January and February 2021 to allow officers to focus on delivering the Council's budgets. Audit work has progressed throughout March and April but is currently on hold whilst the External Auditors apply resources to deliver their NHS commitments.

3.0 MATTERS ARISING

- 3.1 Although not fully concluded the audit is substantially complete and at the time of writing this report the following material issues has been raised by the External Auditor.

Audit Adjustments

Walney Substation Backdated Income £1.727M

- 3.2 Council's are allowed to retain 100% of business rates income from renewable energy projects for which they grant planning permission. Following external advice and review Walney Substation was classified as a renewable energy project providing Business Rates receipts of £2.085M. Following the closure of the financial statements the Council was notified of backdated income totalling £1.727M for the period 8 February 2018 to 31 March 2019. Officers brought this adjustment to the attention of the External Auditors and the appropriate accounting adjustments made.

Valuation of Giant Axe Stadium (£2.3M reduced to £3,600)

- 3.3 The Council engages its Property Services Team to undertake all its property valuations, with the External Auditors employing their own valuer to review on a sample basis. The Giant Axe Stadium was initially valued at £2.3M using the Depreciated Replacement Cost (DRC) methodology which considers the cost of replacing various aspects of the site such as the stadium, pavilion and changing rooms. The auditors view is that a more suitable methodology would be the capitalised income model based on the rental income. Given the nominal level of rent received the revised valuation is £3,600.

- 3.4 We are currently reviewing a small number of similar assets however, given the uniqueness of this asset this is expected to be an isolated issue.

- 3.5 Both of the above issues are above the External Auditors materiality threshold, and the final accounts have been adjusted to reflect them. International Auditing Standard 260 (ISA 260) requires our External Auditors report their findings from the audit directly to Members and will contain information on all adjusted and non-adjusted amounts raised during the course of the audit. It is hoped this report will be presented to the next meeting of the Audit Committee, and at that time the Committee will be asked to approve the audited accounts.

Objection to the 2019/20 Financial Statements

- 3.6 The External Auditor received notification of a formal objection to items contained within the 2019/20 Financial Statements. The External Auditor has now considered the objection in accordance with the National Audit Office's Audit Guidance Note 4 and has formally written to the objector stating his grounds for not considering the objection.
- 3.7 Committee Members should be aware that the 2019/20 Audit Fee (£44,959) does not contain an amount for dealing with objections and so the associated costs will be borne by the Council. Current estimates are an additional cost to the Council of c£12K.

4.0 VALUE FOR MONEY OPINION

- 4.1 Although a couple of minor items remain outstanding no significant issues have been raised with Officers and we expect the external auditor to issue an unqualified opinion.

5.0 2020/21 STATEMENT OF ACCOUNTS POSITION

- 5.1 At the time of writing this report, the draft 2020/21 Statement of Accounts are still being compiled. Once finalised it is intended that they will be published on the Council's website by 31 July 2021 and a link sent to all Council Members, with paper copies being made available on request.
- 5.2 As noted previously the deadline for publication of audited accounts has been revised to 30 September 2021. As a result, during the period August to September, our external auditors, Deloitte, should conduct an audit of the accounts. Although both officers and audit staff will work to ensure the deadline is achieved this short time frame will provide a challenge

6.0 OPTIONS AND OPTIONS ANALYSIS

- 6.1 As the report is for noting no alternative options are put forward, but the Committee could make supplementary recommendations regarding any matters arising.

7.0 CONCLUSION

- 7.1 Members should note the progress and matters arising to date.

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing):

No implications directly arising.

LEGAL IMPLICATIONS

S27 of the Local Audit and Accountability Act 2014 makes provision for an elector of the

Council's area to make an objection to the local auditor in respect of the grounds set out at paragraph 3.4 of this Report. On receipt of an objection the local auditor must decide (a) whether to consider the objection, and (b) if the auditor does so, whether to take action within paragraph (a) and (b) of s27(1) in response.

In considering any objection, the auditor will need to have regard to the provisions of the 2014 Act and the code of audit practice applicable to the Council. The Local auditor must in carrying out functions under the 2014 Act, have regard to guidance issued by the Comptroller and Auditor General under paragraph 9 of Schedule 6 of the 2014 Act. This includes the Auditor Guidance Note 4.

An objector aggrieved by a decision of a local auditor not to consider the objection or not to apply for a declaration under s28 of the 2014 Act may within 6 weeks from notification of the decision require the auditor to provide written reasons for the decision and within 21 days from receipt of the written reasons may appeal against the decision to the court.

FINANCIAL IMPLICATIONS

There are no financial implication flowing directly from this report. However, Member's should be aware of the addition audit fee's that may accrue because of the objection to the financial statements.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces

No implications directly arising.

SECTION 151 OFFICER'S COMMENTS

This report forms part of the Chief Finance Officer's responsibilities, under his role as s151 Officer.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

27 August 2020
<https://committeeadmin.lancaster.gov.uk/documents/s77442/Statement%20of%20Accounts%202019-20%20Final.pdf>

Statement of Accounts 2019/20
<http://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

Contact Officer: Paul Thompson
Telephone: 01524 582603
Email: pthompson@lancaster.gov.uk
Ref:

By virtue of paragraph(s) 1, 2, 4 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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