

AUDIT COMMITTEE

Internal Audit Annual Report 2017-18

23 May 2018

Report of the Internal Audit and Assurance Manager

PURPOSE OF REPORT

To inform the Committee of the extent and outcome of internal audit work during the 2017/18 financial year and to present an annual overall opinion regarding the Council's internal control, risk management and governance framework.

This report is public

RECOMMENDATIONS

1. That the report be noted.
2. That the Internal Audit and Assurance Manager's (IAAM) Internal Audit Annual Report be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement (AGS), which is to be re-considered by the Committee at the July meeting alongside the Statement of Accounts.

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 audit coverage and of the work carried out by the section and contains the IAAM opinion of the overall level of control in operation.
- 1.2 The Audit Committee's role in relation to reviewing the work carried out includes formal consideration of summaries of work done, key findings, issues of concern and actions in hand as a result of audit work. A key part of the role is receiving and reviewing regular reports from the IAAM in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage. The Audit Committee has a clear role in relation to the authority's internal audit function and this involves:
 - Formally approving, but not directing, the overall strategy to ensure that it meets the council's overall strategic direction;
 - Agreeing the annual audit plan (paying particular attention to whether there is sufficient and appropriate coverage); and
 - Monitoring progress against the plan and assessing whether adequate skills and resources are available to provide an effective audit function.

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.

4.0 Options and options analysis (including risk assessment)

4.1 The proposal is that the Committee accepts the IAAM Internal Audit Annual Report as a contribution to the overall assessment of the internal control environment and the AGS.

4.2 No alternative options are identified.

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. During the 2017/18 financial year, internal audit's work has gained the necessary assurances to be able to state the council has in place satisfactory controls to be able to maintain an adequate and effective internal control environment. However it should be noted that the IAAM has stated that both risk management and the Council's readiness for the General Data Protection Regulations should be reported in the Council's AGS for the year 2017/18 as areas requiring significant attention.

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 2017/18

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INTERNAL AUDIT ANNUAL REPORT 2017/18

The Internal Audit and Assurance Section is responsible to the Chief Officer Resources (S151 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.

Lancaster City Council continues to be represented on the Lancashire District Council’s Audit Group and we continue to participate in the National Fraud Initiative data sharing exercise.





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 audit service has recently received validation following a peer review on its self-assessment of effectiveness of internal audit. Details of this peer review can be found later in this report.

This year (2017/18) the audit plan consisted of 485 days. 100% of the plan is 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.





Internal feedback forms are distributed after each audit review. In 2017/18 the feedback received indicated that the work of internal audit continues to be highly regarded.

Audit Work Performed in 2017 / 2018






Summarised below are the reviews that have been performed and reports issued in 2017/18. 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.



2016/17 Audit Plan Work Finalised in 2017/18

TITLE	STATUS	Level of Assurance	Summary
HB Subsidy Claim - Overpayments	Final Report Issued 20/04/18	Substantial 	Substantial assurance has been given on the basis that no overpayment misclassifications were identified. Classifications were found to be in line with DWP guidance and an appropriate audit trail was available to support each overpayment and the classification awarded.
1% Rent Reductions	Final Report Issued 24/04/18	Substantial 	Substantial assurance has been given on the basis that the correct rent reductions had been applied in relation to all the cases tested during the course of this review.
NNDR Transactional (Lancaster)	Final Report Issued 26/09/17	Substantial 	Substantial assurance has been given on the basis that good arrangements are in place to ensure that NNDR reliefs and exemptions are appropriate, correct and effectively managed and new accounts are appropriately supported. Only minor improvements are required with a view to further strengthening existing controls and actions have been agreed to address these.
NNDR Transactional (Preston)	Final Report Issued 03/11/17	Reported separately to Preston.	
Equality Act	Final Report Issued 11/01/18	Limited 	Limited assurance has been given on the basis that if the council is to fully comply with the requirements of the Duty, be able to effectively demonstrate compliance, and withstand any potential challenge, arrangements need to be strengthened. Roles and responsibilities need to be clearly defined and a corporate lead established. Officers require further training to ensure they are fully equipped to make decisions which are properly informed by the potential implications of those decisions on protected groups. More can also be done to ensure that equality issues are integral to decision making with compliance with the Duty being a conscious approach, the focus of arrangements being on performance rather than process.




2017/18 Audit Plan Work

TITLE	STATUS	Level of Assurance	Summary
Asset Management	Final Report Issued 22/12/17	Limited 	Limited assurance has been given on the basis that there is scope to improve management of the council's property portfolio with a view to ensuring value for money is obtained from the asset base. The Property Group has had resourcing issues and this has impacted upon the asset management function. Capacity has now been created to address this and an Asset Manager has been appointed. This officer will play a key role in taking forward actions agreed during the course of this review, which once implemented should result in a substantial assurance being provided.
Planning Enforcement (replaced Insurance work)	Final Report Issued 02/01/18	Substantial 	Substantial assurance has been awarded on the basis that current arrangements for receiving, recording and investigating planning enforcement complaints are efficient and effective. Only minor improvements are required in relation to data recording for performance monitoring purposes, and actions have been agreed to address this.
Salt Ayre Leisure Centre	Final Report Issued 03/04/18	Substantial 	Substantial assurance has been provided on the basis that the collection, storage and banking of income at the Centre is generally well controlled. A number of areas were identified where arrangements could be strengthened, and actions have been agreed to address these issues. The majority of the issues raised were actioned during the audit and the small number of issues which remain outstanding will be implemented by the end of the financial year 2017/18.
Income Management – The Print Room	Final Report Issued 12/02/18 Follow-up Report Issued 25/04/18	Limited  Substantial 	Limited assurance has been awarded on the basis that there are a significant number of minor control weaknesses surrounding income collection and banking arrangements at the Print Room. However, it should be noted that officers have already made a number of improvements during the course of this review and an action plan has been agreed which once implemented will address the remaining control weaknesses and raise the assurance opinion. This piece of work was followed up in April 2018 resulting in a Substantial Assurance opinion being achieved.


NNDR Rate Avoidance (Lancaster)	Final Report Issued 19/02/18	Substantial 	Substantial assurance has been awarded on the basis that a consistent, fair and proportionate approach is taken in relation to administering empty properties, the council taking all the necessary steps to improve business rate collections and reduce rate avoidance attempts. However, it has been agreed that arrangements will be made to publicise the council's stance on rate avoidance tactics, and to make clear the increased level of scrutiny and challenge that will be undertaken in relation to potential rate avoidance cases, through the production of a rate avoidance strategy.
NNDR Rate Avoidance (Preston)	Final Report Issued 19/02/18	Reported separately to Preston City Council.	
Business Planning	Position Statement prepared		Business Planning is still in development, this being overseen by Management Team and Cabinet. Revised arrangements are not yet developed to a point where Internal Audit assurance can be provided.
Compliance with the Scheme of Delegation	Position Statement prepared		This audit review will be picked up when an up-to-date and approved Scheme of Delegation is in place. However, no concerns were highlighted as a result of the earlier work already completed.
Council Housing Voids	Position Statement prepared		Internal Audit review postponed until after the completion of the external review currently being carried out. Internal Audit will monitor implementation of any resulting action plan produced by the external consultant.
Local Plan	Position Statement prepared		The Local Plan is still in development and progress is being overseen by Council and the Planning Policy Cabinet Liaison Group, as well as being monitored by the DCLG. No internal audit review to be carried out at this time. However Internal Audit are to keep development of the Local Plan under review and monitor progress made over the next 12 months.
Voluntary Faith Community Sector (VFCS)	Position Statement prepared		This review has not been carried out as Members are currently reviewing the Council's future arrangements in relation to VCFS commissioning. It is considered that a review carried out by Internal Audit at this point would result in a duplication of effort. Therefore, Internal Audit are to keep this situation under review and consider inclusion of a review in future Audit Plans based on evaluation of the potential risks associated with any new arrangements.




Performance Management	Draft report prepared	Limited 	Limited assurance has been given on the basis that whilst a performance management framework is in place, it is not yet fully embedded, this being in part due to key elements of it having recently been revised. Current indicators are in need of review to ensure they align with the new Council Plan, and there is scope to improve arrangements for the collection and reporting of data. Accountability also needs strengthening. An action plan has been agreed with a view to improving arrangements, which once implemented should result in substantial assurance being provided.
Learning and Development	Draft report prepared	Limited 	Arrangements are in place to ensure the council is compliant with statutory requirements in relation to the Apprenticeship Levy. The role of line managers in developing staff is clearly understood, and measures are being taken with a view to identifying learning and development needs of the workforce. However, there is scope to improve arrangements for maximising current investment in learning and development activity. Aims and objectives for developing the skills, knowledge and competencies of staff also need to be clearly defined. A learning and development officer is to be appointed in the near future who will play a key role in taking forward the agreed actions, which once implemented should result in a substantial assurance being provided.
Main Accounting	Fieldwork in progress		These reviews were delayed due to Chief Officers requesting additional work to be carried out. Fieldwork is now in progress and it is expected that reports will be issued in May / June 2018.
Procurement / Contract Management	Fieldwork in progress		
Budgetary Control	Fieldwork in progress		
Financial Planning and MTFs	Delayed		This piece of work has been slightly delayed due to workload, however it is due to be scoped with the Section 151 Officer in May/June 2018.
Recovery of Legal Fees and Court Costs	Delayed		There is currently no capacity at present within the team to assist with an internal audit review.
Green Waste Collection	Rolled to 2018/19 Audit Plan		It has been agreed that this piece of work will be rolled to the 2018/19 Audit Plan. There is currently no capacity at present within the Legal Team to assist with an internal audit review.

Follow-up work completed in 2017/18

TITLE	STATUS	Level of Assurance	Summary
Anti-Social Behaviour	Follow-up Report Issued 15/01/18	Substantial 	Substantial assurance has been given on the basis that, as per the requirements of the Anti-Social Behaviour Act, an up to date policy and procedure statement is now in place and this has been made publicly available.
Stores	Follow-up Report Issued 18/05/17	Substantial 	Substantial assurance has been given on the basis that good progress has been made with implementation of the agreed actions. Improvements have been made in relation to stock management, record keeping and security checks on stock leaving the depot. Purchasing arrangements have also been reviewed and changes introduced with a view to achieving savings through efficiencies and obtaining value for money. A review of the Stores system capabilities has been carried out, this leading to more effective use being made of the system to aid, inform and automate stock management arrangements.
Driver Certificate of Professional Competence	Follow-up Report Issued 08/05/17	Substantial 	Substantial assurance has been given on the basis that a comprehensive record of all drivers requiring a valid Driver Certificate of Professional Competence (CPC) in order to carry out their duties has recently been compiled, along with a record of those drivers currently holding a valid CPC, the expiry dates and a record of all training that has been undertaken to date. This strengthening of record keeping arrangements enables the council to better demonstrate compliance with relevant legislation and therefore reduces the risk of any financial penalties being imposed on either the driver or the council.

Other work completed in 2017/18

TITLE	STATUS	Level of Assurance	Summary
BACS Processing	Final Report Issued 10/05/17	Substantial 	<p>During discussions regarding the development of the Audit Plan, the Head of Revenues and Benefits requested that a review of BACS processes be carried out, on the basis that Housing Benefit payments are made via this method. An Internal Audit review of BACS processing arrangements had also recently been completed at Preston City Council with whom Lancaster City Council has a shared service agreement in relation to the provision of Revenue and Benefit Services</p> <p>Exchequer Services are responsible for the transmission of BACS files and as such a review of these arrangements was discussed with the Financial Services Manager. The scope of the review included Creditor, Salary and Housing Benefit Payments made by BACS.</p> <p>Substantial assurance has been provided on the basis that the vast majority of controls are operating effectively and addressing risks inherent in the BACS process. However, there is scope for improvement in regard to the security, access, storage and retention of BACS files prior and subsequent to processing for payment / collection. Implementation of the recommendations would improve the overall opinion and should result in maximum assurance being provided.</p>

White Lund Nursery	Final Report Issued 15/08/17	Limited 	<p>Following an investigation into allegations concerning theft of stock at White Lund Depot Nursery it was agreed that a follow-up piece of audit work would be completed.</p> <p>Limited assurance has been given on the basis that the lack of clear policies and procedures for staff purchases, and the weaknesses identified relating to access and security of stock, leave the council vulnerable to inappropriate/unauthorised transactions taking place and/or theft of stock.</p>
	Follow-up Report Issued 06/02/18	Substantial 	<p>This piece of work was followed up in February 2018 resulting in a Substantial Assurance opinion being achieved.</p>
Housing Benefit E-Claim Module	Draft report prepared	Substantial 	<p>The Chief Officer (Resources) requested that an audit be carried out prior to the implementation of the new Housing Benefit E-Claim Module with a view to ensuring that the new system was fit for purpose and that robust controls were in place so that a large payment error that occurred at Preston City Council could not be replicated at Lancaster.</p>

Other audit work undertaken:

Investigations

- In October 2017 Internal Audit were asked to assist the Corporate Enquiry Team to conduct authorised surveillance, over a period of three days. The surveillance helped prove a case of theft from the Council's car park ticket machines. Although the perpetrator was not a Council employee, the investigation resulted in the individual resigning from his job and accepting a conditional Police caution, in which he agreed to pay Lancaster City Council a sum of money relating to the offence.
- A concern was raised in January 2018 by a member of staff in connection with staff being offered subsidies at the Salt Ayre Leisure Centre. The Chief Officer has been informed and a piece of work is currently being completed to assess the current arrangements at the Council's other satellite establishments; namely, The Storey Printroom Cafe and Williamson Park Café. Once this has been completed, Internal Audit will report on their findings.

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. During 2017/18 the team focussed mainly on Council Tax, Council Tax Support, Business Rates and Housing Tenancy Fraud. 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

Following the independent specialist advice gained in 2017, the Council has been preparing for the General Data Protection Regulations which come into force on the 25 May 2018. Whilst a considerable amount of work has been completed, the recently appointed Information Governance Manager has been working through a comprehensive action plan. Although significant progress has been made, the IGM highlighted that there is still a lot of work to be completed to ensure the Council is GDPR compliant.

Counter Fraud and Corruption Policies

There has been no use of the Council's Money Laundering procedure during 2017/18. Both the Money Laundering and Deputy Money Laundering have attended training on the new Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017.

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. The last self-assessment was carried out in June 2017 using the 'Public Sector Internal Audit Standards' and 'Local Government Guidance Note' issued by CIPFA. A few minor gaps were identified and have since been addressed.

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 assessment was completed on the 30th and 31st January 2018. The peer review team (Allerdale Borough Council and Burnley Borough Council) concluded that the Internal Audit Team are fully compliant with the PSIAS. Four areas were reported for consideration, namely:

- To complete an Audit Committee effectiveness review;
- To improve the risk management arrangements to facilitate audit planning;
- To raise awareness of the 'value added' by Internal Audit; and
- To review the current process of audit report presentation at Management Team.

Further details on the suggested improvements are covered in more detail in the peer review report which features later in the agenda.

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.

The internal assessments include the following:

- An annual self-assessment of the effectiveness of the audit service using the PSIAS; 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;
- 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
- The External Auditors and the Audit Committee review and challenge 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 Audit report and that significant deviation requires inclusion in the Council's Annual Governance Statement. It should be noted that at the self-assessment dated June 2017 and the external validation in January 2018 reported that there were no deviations to report.

Risk Management

The Council is in the process of reviewing responsibilities regarding risk management as well as updating the 'draft' Risk Management Policy and Strategy. Once reviewed this will be presented to the Audit Committee for approval. Although work is underway to strengthen the management and reporting of the key risks linked to the draft Council Plan, work is still required across the council to embed the strategy and ensure the Council's practices are transparent when considering and documenting both strategic and operational risks. In the meantime, Internal Audit will continue to develop operational service risk registers to help prioritise work and develop the audit plan.

Other Governance Work

Following a Freedom of information request, Internal Audit were asked by the Section 151 Officer to provide assurance on the recruitment and selection procedures that had taken place in 2017 to recruit the Council's Deputy Chief Executive. The work will be completed in May / June 2018 and on completion, the level of assurance provided will be reported to the Audit Committee.

Internal Control System

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; and
- The issues identified in the Annual Governance Statement.

The tables below show the total number of audits completed to date during 2017/18 and the overall level of assurance that was given. The table also shows the total number of audits still at the draft stage and where no reports have been issued following the preparation of a position statement

Assurance Level	Number of Audits
Maximum	0
Substantial	13
Limited	4
Minimal	0
Draft	2
Fieldwork	3
Delayed (at request of manager)	2
No report – position statement	5
Rolled to 2018/19 Audit Plan	1
Total	30

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

Taking into account all the audit areas examined and the other work carried out during the year, it is my opinion that in respect of internal control, the council has in place satisfactory controls to be able to maintain an adequate and effective internal control environment.

Of the audit work completed during the year, 43% of the work was given an assurance level of 'substantial', with only 13% of the work completed been given an assurance level of 'limited'. Instances where a 'limited' assurance level has been given, action plans have been agreed, which once implemented should result in substantial assurance being provided.

It should be noted that at the time of publishing this audit opinion, a number of audit reviews had yet to be completed. If at a later stage significant issues are identified that will ultimately change the overall opinion documented above, a further report to the Audit Committee will be completed.

In relation to risk management, whilst some work has been completed to strengthen the management and reporting of risk, the council still has a significant amount of work to embed the policy and strategy and ensure the Council's practices are transparent

when considering and documenting both strategic and operational risks. It is therefore in my opinion, that risk management should be reported in the Council's AGS for the year 2017/18 as an area requiring significant attention.

It is pleasing to see that the council is making steady progress in implementing the required actions ensuring the council's readiness for GDPR, however I am concerned that there is still a considerable amount of work to be completed before the 25 May 2018. It is therefore in my opinion that this should also be reported in the Council's AGS for the year 2017/18 as an area requiring significant attention.