



# Internal Audit Annual Report & Head of Internal Audit Opinion 2021/22

Lancaster City Council

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## 1 Introduction

The purpose of this Head of Internal Audit Opinion (HoIAO) is to contribute to the assurances available to the Accountable Officer and the Council which underpin the Council's own assessment of the effectiveness of the organisation's system of internal control. This Opinion will assist the Council in the completion of its Annual Governance Statement (AGS), along with considerations of organisational performance, regulatory compliance and the wider operating environment.

In October 2021, MIAA were requested to support Lancaster City Council, both in terms of providing a Head of Internal Audit service and delivery of the 2021/22 internal audit plan. The previous in-house internal audit provision had ceased and there had been little or no internal audit activity for the period April – October 2021. As such, the Internal Audit Plan developed by MIAA, focused upon mandated and core assurances and priority areas highlighted within Lancaster City Council's 2020/21 Annual Governance Statement.

Furthermore, this opinion is provided in the context that the Council like other organisations across the public sector has continued to faced unprecedented challenges due to COVID-19.

## 2 2021/22 Internal Audit Service Delivery

COVID-19 has continued to impact all public services and we have continued to work differently to provide a strong basis for the delivery of planned work in 2021/22. We have continued to act as a critical friend throughout the period, providing key assurances across a range of areas including governance and risk management. There has remained a strong focus on engagement with organisations and the Audit Committee.

The re-introduction of restrictions and increased levels of staff sickness (both internal audit and within the organisation) due to the Omicron variant and ongoing impact of the pandemic, has continued to provide additional challenges to the delivery of planned work. However, there has been a clear focus by both internal auditors and the organisation on requirements to deliver a HoIAO and to support year end reporting.

**We would like to take this opportunity to thank the Audit Committee and all the staff at the Council for their ongoing support during the year.**

### 3 Executive Summary

This annual report provides the 2021/22 Head of Internal Audit Opinion for Lancaster City Council, together with the planned internal audit coverage and outputs during 2021/22 and MIAA Quality of Service Indicators.

Key Area	Summary
<p><b>Head of Internal Audit Opinion</b></p>	<p>The overall opinion for the period 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022 provides <b>Limited Assurance</b> that there is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls has impacted on the overall system of internal control and puts the achievement of the organisation’s objectives at risk.</p> <p><i>The overall opinion has considered the outcomes of the focused work completed by MIAA, together with the limited internal audit activity undertaken during the first part of 2021/22.</i></p>
<p><b>Planned Audit Coverage and Outputs</b></p>	<p>The 2021/22 Internal Audit Plan has been delivered with the focus on the provision of your Head of Internal Audit Opinion. This position has been reported within the progress reports across the financial year. Review coverage has been focused on:</p> <ul style="list-style-type: none"> <li>• The organisation’s Risk Assurance Framework</li> <li>• Core reviews, including follow up; and</li> <li>• A range of individual risk based assurance reviews.</li> </ul> <p>The delivery of the Internal Audit Plan has been impacted by the availability of key officers within the Council and also requests for reviews to be deferred. As such, the plan has been regularly re-prioritised to support the delivery of the Head of Internal Audit Opinion</p>
<p><b>MIAA Quality of Service Indicators</b></p>	<p>MIAA operate systems to ISO Quality Standards. The External Quality Assessment, undertaken by CIPFA (2020), provides assurance of MIAA’s full compliance with the Public Sector Internal Audit Standards.</p>

## 4 Head of Internal Audit Opinion

### 4.1 Roles and responsibilities

The whole Council is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS) is an annual statement by the Leader of the Council and the Chief Executive, on behalf of the Council, setting out:

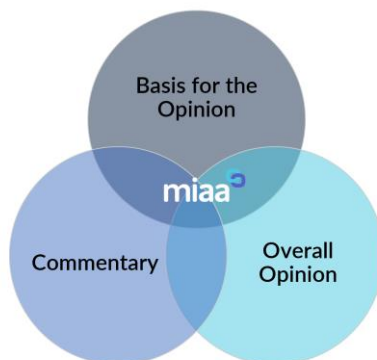
- how the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievements of policies, aims and objectives;
- the purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the Risk Assurance Framework process; and
- the conduct and results of the review of the effectiveness of the system of internal control, including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

In accordance with Public Sector Internal Audit Standards, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation’s risk management, control and governance processes (i.e. the organisation’s system of internal control). This is achieved through a risk-based plan of work and approved by the Audit Committee, which can provide assurance, subject to the inherent limitations described below. The outcomes and delivery of the internal audit plan are provided in Section 4.

The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived, and produced on behalf of the Council, from the conduct of work undertaken by MIAA. Section 5 details internal audit coverage.

### 4.2 Opinion

Our opinion is set out as follows:



### 4.2.1 Basis

The basis for forming our opinion is as follows:

- |   |  |
|---|--|
| 1 | An assessment of the design and operation of the underpinning strategic governance, risk management arrangements and supporting processes.   |
| 2 | An assessment of the range of individual assurances arising from our risk-based internal audit assignments that have been reported throughout the period. This assessment has taken account the relative materiality of systems reviewed and management’s progress in respect of addressing control weaknesses identified. |
| 3 | An assessment of the organisation’s response to Internal Audit recommendations, and the extent to which they have been implemented.  |

### 4.2.2 Overall Opinion

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

High Assurance, can be given that there is a strong system of internal control which has been effectively designed to meet the organisation’s objectives, and that controls are consistently applied in all areas reviewed.	
Substantial Assurance, can be given that that there is a good system of internal control designed to meet the organisation’s objectives, and that controls are generally being applied consistently.	
Moderate Assurance, can be given that there is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some of the organisation’s objectives at risk.	
<b>Limited Assurance</b> , can be given that there is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls impacts on the overall system of internal control and puts the achievement of the organisation’s objectives at risk.	✓
No Assurance, can be given that there is an inadequate system of internal control as weaknesses in control, and/or consistent non-compliance with controls could/has resulted in failure to achieve the organisation’s objectives.	

### 4.3.3 Commentary

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

Our opinion covers the period 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022 inclusive, and is underpinned by the work conducted through the risk based internal audit plan.

**4.3.3.1 Risk Assurance Framework**

Our work has consisted of:

- Conducting a Risk Management review to consider the design and operating effectiveness of the Council’s risk management processes and this provided a ‘no assurance’ opinion.

The review identified that there was no or very limited central operational or strategic risk management oversight processes in operation throughout 2021/22. This has given rise to the policy being out of date, an absence of risk management training, the risk management (GRACE) system not being embedded and utilised which has resulted in no update to the Strategic Risk Register and risks and action plans held centrally during 21/22. Furthermore, there is no linkage between the corporate plan and the Strategic Risk Register.

It is acknowledged that there are small pockets of risk management in operation, including departmental risk registers and review of specific areas such as project risks and finance risks, However, these are managed in silo’s and there is no central oversight and reporting.

The continuing impact of COVID, together with significant staff change within the risk management portfolio has significantly contributed to this position. This has also affected the use of the specifically purchased (2020) electronic risk management system GRACE, which is not yet embedded and utilised.

**4.3.3.2 Core & Risk Based Reviews Issued**

We issued:

<b>0 high assurance opinion:</b>	
<b>3 substantial assurance opinions:</b>	Main Accounting Systems* Treasury Management* Grants*
<b>2 moderate assurance opinions:</b>	Conflicts of Interest* P2P System*
<b>0 limited assurance opinions:</b>	
<b>1 no assurance opinion:</b>	Risk Management*
<b>3 reviews without an assurance rating</b>	DEFRA Air Quality Grant Submission Contained Outbreak Management Fund (COMF) Grant Submission Test & Trace Support Payments (TTSP) Grant Submission

\* Draft report

Reviews on NNDR and Housing Benefit carried out under the shared services agreement with Preston Council

#### 4.3.3.3 Follow Up

During the course of the year we have undertaken follow up reviews and can conclude that the organisation has made **limited** progress with regards to the implementation of recommendations. We will continue to track and follow up outstanding actions.

We have raised 18 recommendations as part of the reviews undertaken during 2021/22. All recommendations raised by MIAA have been accepted by management.

Of these recommendations: 1 were **critical** and 4 were **high risk recommendations** in relation to the review of Risk Management.

#### 4.3.3.4 Wider organisation context

This opinion is provided in the context that the Council like other organisations across the public sector is facing a number of challenging issues and wider organisational factors particularly with regards to the ongoing pandemic response and wider system developments. The challenges for organisations have included continuing to ensure an effective pandemic response and delivering business as usual requirements.

In providing this opinion I can confirm continued compliance with the definition of internal audit (as set out in your Internal Audit Charter), code of ethics and professional standards. I also confirm organisational independence of the audit activity and that this has been free from interference in respect of scoping, delivery and reporting.

*Chris Harrop*

Managing Director, MIAA  
July 2022

*Louise Cobain*

Assurance Director, MIAA  
July 2022



## 5 Internal Audit Coverage and Outputs

The 2021/22 Internal Audit Plan has been delivered with the focus on the provision of your Head of Internal Audit Opinion. This position has been reported within the progress reports across the financial year. The completion of the Internal Audit Plan has been impacted by the availability of key officers within the Council and also requests for reviews to be deferred.

The audit assignment element of the Opinion is limited to the scope and objectives of each of the individual reviews. Detailed information on the limitations (including scope and coverage) to the reviews has been provided within the individual audit reports and through the Audit and Standards Committee Progress Reports throughout the year.

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

	Review	Assurance Opinion	Recommendations Raised				
			Critical	High	Medium	Low	Total
1	Risk Management*	None	1	4	-	-	5
2	Main Accounting System*	Substantial	-	-	2	2	4
3	P2P System Assurance**	Moderate					
4	Treasury Management*	Substantial	-	-	1	4	5
5	Grants*	Substantial	-	-	1	3	4
6	Conflicts of Interest**	Moderate					
7	NNDR***	N/A					
8	Housing Benefits***	N/A					
9	DEFRA Grant Submission	N/A					
10	COMF Grant Submission	N/A					
11	TTSP Grant Submission	N/A					
		<b>TOTAL</b>	<b>1</b>	<b>4</b>	<b>4</b>	<b>9</b>	<b>18</b>

\* Draft Report with Client

\*\* Report being drafted

\*\* Assurance provided via the Lancaster City & Preston City Council Shared Revenues & Benefits Service Agreement

All recommendations raised were accepted by management.

We will continue to follow up progress against all recommendations as part of the 2022/23 Internal Audit Plan.

**ADVISORY SUPPORT AND GUIDANCE:** Areas where MIAA have supported the organisation in strengthening arrangements in respect of governance, risk management and internal control.

- Money Laundering Advice
- Audit Committee Terms of Reference / CIPFA Code of Governance Review

**CONTRIBUTION TO GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL ENHANCEMENTS:** *Additional areas where MIAA have provided added value contributions.*

Detailed insight into the overall Governance and Assurance processes gained from liaison throughout the year with the S151 Officer and attendance at Audit Committee.

Ongoing discussion with lead Officers, throughout the year.

Effective utilisation of internal audit including in year communication, requests for support and changes to the audit plan in respect of the DEFRA, COMF and TTSP Grant submissions.

Engagement with MIAA Insights benchmarking, best practice and outcome reporting.

## 6 Areas for consideration – your Annual Governance Statement

The Head of Internal Audit Opinion is one source of assurance that the organisation has in providing its AGS other third party assurances should also be considered. In addition the organisation should take account of other independent assurances that are considered relevant.

We have identified a number of other strategic challenges that should be considered by the Council when drafting the AGS. Whilst the scope of the Internal Audit Plan would have considered elements of these, it is important that the Council reflects more widely on how these should be factored into the AGS. Areas for consideration include:

- Wider partnership/ collaborative working and engagement across the Lancashire Footprint.
- Continued establishment and delivery of cross-organisation arrangements for the Better Care Fund and other pooled budgets development (e.g. Education, Lancashire County Council)
- Impact of the revised financial regime on decision making, achieving financial duties, ongoing financial viability, delivery of savings, service pressures and key relationships/ performance of third parties.
- Changes to governance, risk management and internal control arrangements due to the ongoing COVID-19 response and the functioning of emergency responses structures (including the impact on decision making processes).
- Impact of the COVID-19 response on the ongoing delivery of services and compliance with legislative and regulatory requirements (e.g UK Corporate Governance Code). Maintenance and improvement of the quality of services alongside and overall organisation performance, including the delivery of targets.
- Council leadership, including any significant changes to the Council and Senior Management Team
- Workforce capacity, engagement, wellbeing and development.
- Ensuring there is a fit for purpose infrastructure.
- Cyber security, information governance risks and any associated reportable incidents to the Information Commissioner.
- Relationship and management of 3rd party providers upon which the organisation places reliance, and the provision of assurances from these (e.g. Preston Council – Fraud Services).

## 7 Ensuring Quality

MIAA’s strategy has quality at the heart of everything we do and our overall approach to quality assurance includes ISO9001:2015 accreditation, compliance with Public Sector Internal Audit Standards, the quality of our people and outcome measures.

### 7.1 Professional Standards and Accreditations

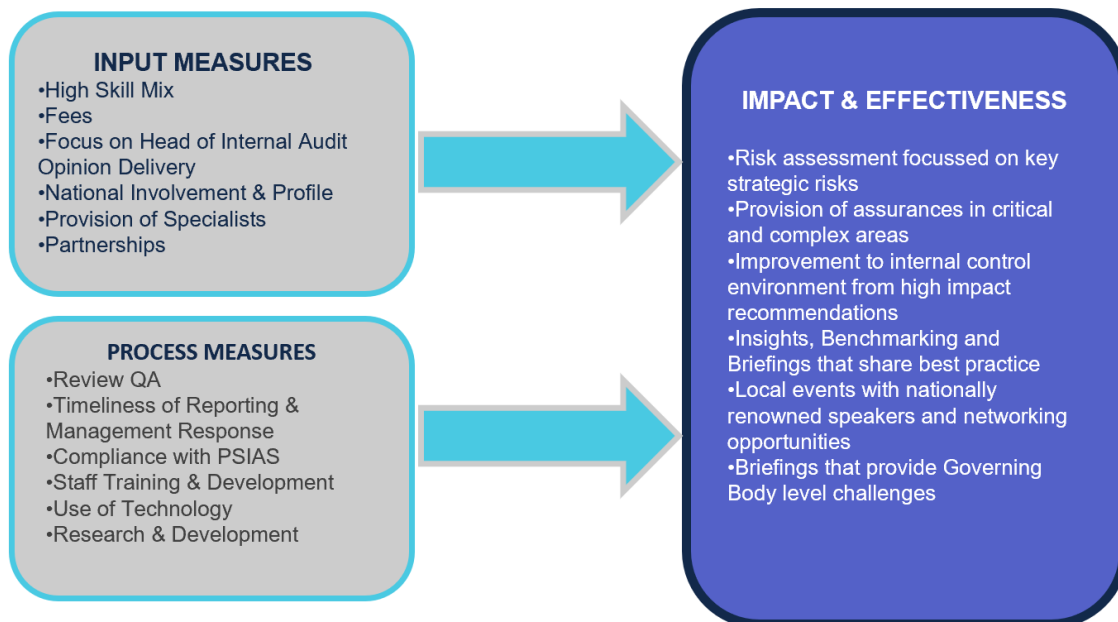
MIAA comply fully with professional best practice, internal audit standards and legal requirements. We assess our compliance with the Public Sector Internal Audit Standards (PSIAS) each year.





## 7.2 Service delivery and outcome measures

It is important that client organisations ensure an effective Internal Audit Service, and whilst input and process measures offer some assurance, the focus should be on outcomes and impact from the service. The figure below confirms the measures that we believe demonstrate an effective service to you.



MIAA regularly report on input and process KPIs as part of our Audit Committee Progress reports, and the impact and effectiveness measures can be assessed through the HOIA Opinion.

**Chris Harrop**

Managing Director

Tel: 07881 036900

Email: [chris.harrop@miaa.nhs.uk](mailto:chris.harrop@miaa.nhs.uk)

**Louise Cobain**

Assurance Director

Tel: 07795 564 916

Email: [louise.cobain@miaa.nhs.uk](mailto:louise.cobain@miaa.nhs.uk)