



# Internal Audit Progress Report Audit Committee (March 2023)

Lancaster City Council

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## Your Team

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### Limitations

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regards to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

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### Public Sector Internal Audit Standards

Our work was completed in accordance with Public Sector Internal Audit Standards.

## 1 Introduction

This report provides an update to the Audit Committee in respect of progress made against the Internal Audit Plans for 2021/22 and 2022/23 and brings to your attention matters relevant to your responsibilities as members of the Audit Committee.

This progress report provides a summary of Internal Audit activity and complies with the requirements of the Public Sector Internal Audit Standards.

Comprehensive reports detailing findings, recommendations and agreed actions are provided to the organisation, and are available to Committee Members on request. In addition, a consolidated follow up position is reported on a periodic basis to the Audit Committee.

This progress report covers the period November 2022 to March 2023.

## 2 Executive Summary

There has been the focus on the following areas:

<b>2021/22 Audit Reviews</b>	<p>MIAA were appointed as the internal audit provider in November 2021 and as such, delivery of the 21/22 Internal Audit Plan did not commence until December 2021. There have been ongoing pressures at the council which have impacted on this delivery, as such requests have been received to delay a number of reviews.</p> <p>These reviews will be included in the 2022/23 Head of Internal Audit Opinion.</p> <p>Since we last reported our progress to the Audit Committee in November, the following reviews have been finalised:</p> <ul style="list-style-type: none"><li>• <b>Efficiency Programme Delivery</b> (Moderate Assurance)</li><li>• <b>Property Investment Strategy – Capital Schemes</b> (Substantial Assurance)</li><li>• <b>Collection of Income and Reconciliations</b> – (Limited Assurance)</li></ul> <p>The remaining review for 2021/22 below is currently at draft report stage:</p> <ul style="list-style-type: none"><li>• <b>HR Assurance Review</b> – (Draft report)</li></ul> <p><b>Appendix C</b> provides details of Key Areas and Actions to be delivered.</p>
<b>2022/23 Audit Reviews</b>	<p>Since the previous Audit and Standards Committee, the following reviews have been finalised:</p> <ul style="list-style-type: none"><li>• <b>Budgetary Controls</b> (Substantial Assurance)</li></ul>

	<ul style="list-style-type: none"><li>• <b>IT Resilience/Cyber</b> (Confidential)</li></ul> <p>The following 2022/23 reviews are progressing or are in draft report stage:</p> <ul style="list-style-type: none"><li>• <b>Data Protection and Policy Follow-up Review</b> (Draft Report)</li><li>• <b>Council Time Recording Systems</b> (Draft Report)</li><li>• <b>Externally Managed Events</b> (Draft Report)</li><li>• <b>CCTV Compliance</b> (Draft Report)</li><li>• <b>Council Resilience</b> (Draft Report)</li><li>• <b>Assurance Mapping Exercise</b> (In progress)</li><li>• <b>Project Management</b> (In progress)</li></ul> <p>The following 2022/23 reviews have agreed Terms of Reference and are due to start imminently or are being scoped:</p> <ul style="list-style-type: none"><li>• <b>Risk Management</b></li><li>• <b>Key Financial Controls</b></li></ul> <p><b>Appendix A</b> provides an overview of the delivery of your Head of Internal Audit Opinion for 2022/23.</p> <p><b>Appendix B</b> provides information on Internal Audit performance.</p>
Follow-up	<p>A summary of the current status of follow-up activity is included in <b>Appendix D</b>, however, we would draw the committee’s attention to the following:</p> <ul style="list-style-type: none"><li>• We have followed up three limited assurance reports from the previous auditors, along with the reports we have recently issued.</li><li>• There were 84 actions followed up with 33 completed or superseded and of the remaining 51, 31 were not due, 11 in progress and 9 have not yet been started or we are awaiting an update.</li></ul>
Audit Plan Changes	<p>Audit Committee approval will be requested for any amendments to the original plan and highlighted separately below to facilitate the monitoring process.</p> <ul style="list-style-type: none"><li>• We have replaced the Apprenticeships Review with a Project Management review.</li></ul>

<p>MIAA Quality of Service Indicators</p>	<p>MIAA operate systems to ISO Quality Standards. Public Sector Internal Audit Standards (PSIAS) require MIAA to ‘develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.’ This programme must include internal and external assessments.</p> <p>External assessments must be conducted at least once every five years. Our last external assessment was completed in 2020 and concluded MIAA fully complies with PSIAS (as previously reported to Audit Committee).</p> <p>We also undertake regular internal assessments to ensure our ongoing compliance with requirements. We have recently completed our annual self-assessment of compliance with PSIAS and can confirm full compliance with PSIAS.</p>
<p>Cyber Essentials</p>	<p>MIAA are committed to delivering and demonstrating the highest standards of information governance and cyber security in order to protect not only our information and systems but to protect the data we collect and create through our audit and advisory activities with clients.</p> <p>We have consistently submitted a compliant NHS Data Security and Protection Toolkit return and have, for several years, been certified to the national Cyber Essentials standard.</p> <p>This October, however, we enhanced this further becoming one of only circa 20 NHS organisations certified to the more exacting Cyber Essentials Plus standard. Certification to this standard required rigorous independent testing of our cyber security controls across our devices. That we have achieved this certification is a demonstration not only of the security of our devices but also a validation of the proactive monitoring and maintenance that we have in place to protect data and systems from malicious threats.</p>
<p>Insights</p>	<p><a href="#">Collaborative Masterclass Events</a></p> <ul style="list-style-type: none"> <li>• <a href="#">Outlook for the Public Sector 2023 - MIAA</a> (20<sup>th</sup> April 2023)</li> <li>• <a href="#">MIAA Audit Committee Members Event - MIAA</a> (21<sup>st</sup> June 2023)</li> </ul>

## Appendix A: Contract Performance

The Public Sector Internal Audit Standards (PSIAS) state that ‘The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.’

Below sets out the position regarding the 2021/22 Internal Audit reviews. Please note, reviews which were not included in the 2021/22 Head of Internal Audit Opinion\*, will be included in the opinion for 2022/23

HOIA Opinion Area	Status	Assurance Level
<b>2021/22 Reviews</b>		
Collection of Income & Reconciliations*	Completed	Limited Assurance
Property Investment Strategy / Capital Schemes*	Completed	Substantial Assurance
Council Tax*	Completed	Moderate Assurance
Efficiency Programme Delivery *	Completed	Moderate Assurance
Effectiveness of HR Arrangements*	Draft report	

Below sets out the overview of delivery for your Head of Internal Audit Opinion for 2022/23.

<b>2022/23 Reviews</b>		
HOIA Opinion Area	Status	Assurance Level
<b>Risk Management</b>		
Risk Management	Planning	
<b>Risk Based Reviews</b>		
Key Financial Controls	Planning	
Budgeting	Completed	Substantial
Project Management	In progress	
Assurance Mapping	In progress	
Climate Change/Carbon Neutral Work	Q4	

Recruitment	Moved from Q3 to Q4	
Council Resilience/Emergency Preparedness	Draft report	
Contract Management	Q4	
Time Recording Systems	Draft report	
CCTV Compliance	Draft report	
Externally Managed Events	Draft report	
Data Protection and Policy Follow-up	Draft report	
IT Resilience/Cyber	Completed	Confidential

Follow Up

Quarter 2	Completed	N/A
Quarter 4	Completed	N/A

Management

Head of Internal Audit Opinion/Annual Report/Annual Governance Statement	Ongoing	N/A
Planning and Management		
Reporting and Meetings		
Contingency		

If due to circumstances beyond our control we are unable to achieve sufficient depth or coverage, we may need to caveat opinions and explain the impact of this and what will be done to retrieve the position in future.

## Appendix B: Performance Indicators

The primary measure of your internal auditor's performance is the outputs deriving from work undertaken. The following provides performance indicator information to support the Committee in assessing the performance of Internal Audit.

Element	Reporting Regularity	Status	Summary
Delivery of the Head of Internal Audit Opinion (Progress against Plan)	Each Audit Committee	Green	<p>There is ongoing engagement and communications regarding delivery of key reviews to support the Head of Internal Audit Opinion.</p> <p>MIAA were appointed as the internal audit provider in November 2021 and as such, delivery of the 21/22 Internal Audit Plan did not commence until December 2021. It was agreed that delivery relating to 21/22 would continue into 22/23. In addition, there have been ongoing pressures at the council which have impacted on this delivery.</p> <p>These reviews will be included in the 2022/23 HoIAO.</p>
Issue a Client Satisfaction Questionnaire following completion of every audit.	Ongoing	Green	Link to questionnaire included within each audit report.
Qualified Staff	Annual	Green	MIAA have a highly qualified and diverse workforce which includes 75% qualified staff.
Quality	Annual	Green	MIAA operate systems to ISO Quality Standards. The External Quality Assessment, undertaken by CIPFA, provides assurance of MIAA's compliance with the Public Sector Internal Audit Standards. MIAA conforms with the Public Sector Internal Audit Code of Ethics.



## Appendix C: Key Areas from our Work and Actions to be Delivered

<b>Report Title</b>	<b>Efficiency Programme Delivery</b>			
<b>Executive Sponsor</b>	Head of Financial Services and Section 151 Officer			
<b>Objective</b>	To was to provide assurance on the adequacy and effectiveness of current systems and processes in place within the Council to support the delivery of the Councils planned cost savings.			
<b>Assurance Level</b>	Moderate			
<b>Recommendations</b>	0 X Critical	1 x High	3 x Medium	1 x Low
<b>Summary</b>	<p>Overall, the review identified there was adequate system of internal control, however, there were some areas of weaknesses in design and/or inconsistent application of controls.</p> <p>In particular, there was a lack of common approach and consistency both in the quality of information provided and the forms completed for savings schemes. The council would benefit from a bespoke procedure in place for the preparation, monitoring and approval of saving schemes and therefore controls could be improved by ensuring these are implemented.</p> <p>The review confirmed cabinet were involved in discussion and approval of the budget and involved in regular, quarterly, monitoring of the budget prior to the papers being presented to the Budget and Performance Panel for further review, scrutiny, and acceptance. However, monitoring of individual schemes could be improved with an extract of the approved Saving Monitoring spreadsheet included as way to update members on progress.</p>			
<b>Key Risks Highlighted with No Agreed Action</b>	N/A			

<b>Report Title</b>	<b>Property Investment Strategy _ Capital Schemes</b>			
<b>Executive Sponsor</b>	Head of Financial Services and Section 151 Officer			

Objective	To provide assurance that the most significant key controls in Property Investment Strategy are appropriately designed and operating effectively in practice.			
Assurance Level	Substantial			
Recommendations	0 X Critical	0 x High	1 x Medium	1 x Low
Summary	<p>The review identified that whilst there is a system of control, in some areas the controls were not operating effectively.</p> <p>The Council had a Capital Investment Strategy in place.</p> <p>It also had a group to review investment opportunities the Capital Strategy Group, until January 2021, when it stopped meeting due to the pandemic. In January 2022, the new Capital Assurance Group was formed. Terms of Reference were in place and detail the remit, the decision making arrangements, and the expected outcomes of the Group. Decision making noted in the minutes of the former Capital Strategy Group, could have been improved, which will be implemented by the new group.</p> <p>There were four completed investments under the Property Investment Strategy, and these were consistent with the Council's aims and goals, and this rationale is recorded in each business case. The Strategy set out what documentation should be produced for each business case, but these were not in place or fully completed for every business case as one was for a land purchase, as opposed to a property purchase.</p> <p>All four investments were in accordance with the Councils constitution and are recorded on the Council's asset registers.</p>			
Key Risks Highlighted with No Agreed Action	N/A			

Report Title	Collection of Income and Reconciliations
Executive Sponsor	Head of Financial Services and Section 151 Officer
Objective	To identify and evaluate the controls in place to manage the key risks which could impact the effective operation of Income Collection and Reconciliation.

Assurance Level	Limited			
Recommendations	0 X Critical	2 x High	0 x Medium	2 x Low
Summary	<p>Our review noted the council had a significant amount of its debtors having been outstanding for over 365 days with the biggest contributor to the aged debts being Housing Benefits.</p> <p>We found that Debt Management Policies and Guidance should be updated and published on the intranet. We understand that management are in the process of completing a Policy refresh.</p> <p>The Council has formed a shared service with Preston City Council to achieve savings in processing costs. A joint policy for Housing Benefits Overpayments is in place and was last amended in 2016. The Council is responsible for collecting income.</p> <p>Budgets and actual figures are produced for the directorates on a quarterly basis, with variances recorded for investigation by the budget holder.</p>			
Key Risks Highlighted with No Agreed Action	N/A			

Report Title	Budgetary Control			
Executive Sponsor	Head of Financial Services and Section 151 Officer			
Objective	To review and provide an opinion on the system of Budgetary Control and provide assurance that financial reports provided accurate and sufficient information to enable the Council to meet its business objectives.			
Assurance Level	Substantial			
Recommendations	0 X Critical	0 x High	1 x Medium	2 x Low
Summary	<p>Overall, the review identified that controls were generally designed and operating effectively.</p> <p>The Councils Constitution and Financial Procedure Rules set out the budgetary responsibilities for key officers and committees. Although the Council set out the budgetary responsibility at Senior Leader level,</p>			

	<p>controls could be strengthened by ensuring the importance of budget monitoring and budget holder responsibilities is communicated to its budget holders via a guidance document.</p> <p>Our review highlighted that the 2022/2023 budget had been formally approved by Council and uploaded into Civica prior to the new financial year. It was further confirmed that the 2023/2024 budget is currently on course to be agreed prior to April 2023.</p> <p>In year monitoring of budgets takes place and this is completed via a number of mechanisms, both strategically and at service level. At a service level, it was noted that budget holders are provided individual budget monitoring sheets and are required to provide reasoning and comments on any variances and confirm their accuracy. At a strategic level, it was confirmed that there is regular presentation of the Council Budgets with analysis at both the Budget and Performance Panel and Cabinet.</p> <p>It was confirmed that budget changes and virements do have an appropriate approval process with those over £10k being referred to Council. Testing of these virements noted no issues, however controls could be strengthened by ensuring these limits are built into the Council’s Constitution and Financial Procedure Rules.</p>
<p>Key Risks Highlighted with No Agreed Action</p>	<p>N/A</p>

## Appendix D: Follow-up of previous internal audit recommendations

The status of the actions is as at February 2023

AUDIT TITLE (YEAR)	NO OF RECS MADE	ASSURANCE LEVEL	PROGRESS ON IMPLEMENTATION				OUTSTANDING RECOMMENDATIONS			
			✓/S	P	X	Not due	C	H	M	L
<b>Previous Audit Team Reviews</b>										
Debt Legal Recovery Services (2021/22)	5	Limited	3	2	-	-	-	-	-	-
Insurance (2019/20)	11	Limited	7	4	-	-	-	-	-	-
Procurement & Contract Management (2018/19)	18	Limited	6	3	9	-	-	-	-	-
GDPR	Being followed up as a separate review which is at draft report stage									
HR Assurance	Being followed up as a separate review which is at draft report stage									
<b>MIAA Audit Reviews</b>										
Main Accounting System (2021/22)	4	Substantial	1	1	-	2	-	-	-	3
Treasury Management (2021/22)	5	Substantial	2	-	-	3	-	-	1	2
Business Support Grants (2021/22)	4	Substantial	1	-	-	3	-	-	1	2
Council Tax (2021/22)	8	Moderate	3	-	-	5	-	1	4	-
P2P System (2021/22)	4	Limited	-	1	-	3	-	2	2	-
Conflicts of Interest (2021/22)	9	Substantial	4	-	-	5	-	-	1	4
Risk Management (2021/22)	5	No Assurance	5	-	-	-	-	-	-	-

AUDIT TITLE (YEAR)	NO OF RECS MADE	ASSURANCE LEVEL	PROGRESS ON IMPLEMENTATION				OUTSTANDING RECOMMENDATIONS			
			✓/S	P	X	Not due	C	H	M	L
Efficiency Delivery (2021/22)	5	Moderate	-	-	-	5	-	1	3	1
Property Investment Strategy (2021/22)	2	Substantial	-	-	-	2	-	-	1	1
Collection of Income and Reconciliations (2021/22)	4	Limited	1	-	-	3	-	2	-	1
Budgetary Controls (2022/23)	3	Substantial	-	-	-	3	-	-	1	2
<b>TOTALS</b>	<b>87</b>		<b>33</b>	<b>11</b>	<b>9</b>	<b>34</b>	<b>-</b>	<b>6</b>	<b>14</b>	<b>16</b>

Key to recommendations:

- ✓/S Implemented or Superseded
- P Partially implemented/recommendation in progress
- X Recommendation not implemented
- ND Not due for follow up
- C Critical priority recommendation
- H High priority recommendation
- M Medium priority recommendation
- L Low priority recommendation

**Debt Recovery** – Key actions outstanding are regarding exploring the reporting functions of the systems in use.

**Insurance** – Key actions are around improvements to be made to the claims spreadsheet. These are all in progress.

**Procurement & Contract Management** – We will include the points outstanding from this review in our Contract Management Review.

**Risk Management** – This review has been superseded with the 2022/23 Risk Management Review, where the actions will be followed up.

## Appendix E: Assurance Definitions and Risk Classifications

Level of Assurance	Description
High	There is a strong system of internal control which has been effectively designed to meet the system objectives, and that controls are consistently applied in all areas reviewed.
Substantial	There is a good system of internal control designed to meet the system objectives, and that controls are generally being applied consistently.
Moderate	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 aspects of the system objectives at risk.
Limited	There is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls puts the achievement of the system objectives at risk.
No	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 system objectives.
Risk Rating	Assessment Rationale
Critical	Control weakness that could have a significant impact upon, not only the system, function, or process objectives but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none"> <li>the efficient and effective use of resources</li> <li>the safeguarding of assets</li> <li>the preparation of reliable financial and operational information</li> <li>compliance with laws and regulations.</li> </ul>
High	Control weakness that has or could have a significant impact upon the achievement of key system, function, or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisation objectives.
Medium	Control weakness that: <ul style="list-style-type: none"> <li>has a low impact on the achievement of the key system, function, or process objectives.</li> <li>has exposed the system, function, or process to a key risk, however the likelihood of this risk occurring is low.</li> </ul>
Low	Control weakness that does not impact upon the achievement of key system, function, or process objectives; however, implementation of the recommendation would improve overall control.