

# AUDIT COMMITTEE

## Internal Audit Annual Report 2019-20

22 July 2020

### Report of the Internal Audit and Assurance Manager

#### PURPOSE OF REPORT

To consider the Internal Audit Annual report for 2019/20.

**This report is public**

#### RECOMMENDATIONS

1. **That the Internal Audit and Assurance Manager's (IAAM) Internal Audit Annual Report for 2019/20 be considered by the Committee as a key source of assurance which will be reported in the Annual Governance Statement (AGS), which is to be approved by the Committee later in the agenda.**

#### 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 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 considers the IAAM's Internal Audit Annual Report as a contribution to the overall assessment of the internal control environment, the risk management framework 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 2019/20 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 risk management should be reported in the Council's AGS for the year 2019/20 as an area still requiring attention owing to further work on embedding risk management still needing to be completed. At the time of reporting, there is uncertainty what resources will be available in the immediate future to dedicate to embedding risk management given both the IAAM and the Principal Auditor have been redeployed to other areas of work to assist with the pandemic.

### **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 2019/20

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**INTERNAL AUDIT ANNUAL REPORT 2019/20**

The Internal Audit and Assurance Section is responsible to the Head of Financial Services (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 completed a self-assessment of effectiveness of internal audit. Details of this self-assessment can be found later in this report.

The 2019/20 audit plan consisted of 325 days. Normally, 100% of the audit 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. However, following a restructure of the internal team in 2018, several pieces of work were completed by Lancashire County Council and Merseyside Internal Audit Service as agreed by the Audit Committee in February 2020. Details of the work they have completed can be found in the table below.

Internal feedback forms are distributed after each audit review as part of Internal Audits Quality Assurance Improvement Programme.




## Audit Work Performed in 2019 / 2020

Summarised below are the reviews that have been performed and reports issued in 2019/20. 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 rolled forward and completed in 2019/20**

<b>TITLE</b>	<b>STATUS</b>	<b>Level of Assurance</b>	<b>Summary</b>
<b>Financial Planning &amp; Medium Term Financial Statement (MTFS)</b>	<b>Final Report Issued July 2020</b>	<b>Substantial</b> ✓	This piece of work was completed by Lancashire County Council
<b>Recovery of Legal Fees and Court Costs</b>	<b>Fieldwork in progress</b>		Testing was started in quarter four, however, owing to the Covid-19 pandemic, this piece of work was put on hold due to the auditor being re-deployed to Business Support.
<b>Council Housing Assets</b>	<b>Fieldwork in progress</b>		This piece of work was due to be completed jointly with Lancashire County Council. A start-up meeting took place in quarter four, however, owing to the Covid-19 pandemic, this piece of work was put on hold due to the auditor being re-deployed to Business Support.
<b>Economic Development / Regeneration Strategy</b>	<b>N/A</b>	<b>N/A</b>	This piece of work has been rolled to the 2021/22 audit plan to allow the strategy to be developed and finalised.
<b>Insurance</b>	<b>Final Report Issued October 2019</b>	<b>Limited</b> ⚠	This piece of work was followed up in June 2020 – see below
<b>VAT</b>	<b>Draft Report Issued July 2020</b>	<b>Substantial</b> ✓	
<b>Green Waste</b>	<b>N/A</b>	<b>N/A</b>	The Director of Communities and the Environment has stated that this piece of work is no longer required.
<b>Pre-Employment Checks</b>	<b>Final Report Issued August 2019</b>	<b>Substantial</b> ✓	This piece of work was completed by Fylde Borough Council following the departure of the previous Principal Auditor.





<b>Asbestos Management – Council Housing</b>	<b>Final Report Issued May 2019</b>	<b>Limited</b> 	This piece of work was completed by Fylde Borough Council following the departure of the previous Principal Auditor and was due to be followed up in November 2019, however due to limited resources, this follow-up is still outstanding.
<b>2019/20 Audit Plan Work</b>			
<b>TITLE</b>	<b>STATUS</b>	<b>Level of Assurance</b>	<b>Summary</b>
<b>Local Authority Trading Company (LATC's) – Trade Waste &amp; Salt Ayre</b>	<b>N/A</b>	<b>N/A</b>	No assurance work has been completed during the year in respect of LATC's as they are still in their infancy. LATC's will be kept under review going forward and work will commence as and when required.
<b>Procure to Pay – (project assurance work)</b>	<b>No report Issued</b>	<b>Limited</b> 	<p>The Principal Auditor has been attending fortnightly meetings and is involved in monitoring the performance data for this project. The group has recently focused on ensuring the segregation of duties and authorisation of levels are correct. Owing to the departure of the Exchequer Services Manager and the Covid-19 pandemic, this project has come to a halt. The Principal Auditor will continue monitoring the project once normal business resumes.</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 implemented.</p>
<b>Payroll Budget / E Budgeting – (project assurance work)</b>	<b>No Report Issued</b>	<b>Substantial</b> 	<p>The Principal Auditor attended several workshops and meetings during 2019/20 and gave continual advice and guidance throughout the process of the development. The new Payroll / E budgeting module is ready for use, however it was not ready in time for the 2020/21 budget setting process therefore no testing was completed. Further assurance will be given once the new module is used to assist in the budget setting cycle and has been included in the 2020/21 audit plan.</p> <p>For the purpose of this annual audit report, an opinion of 'substantial' has been given on the development and design of the module.</p>




<b>Overtime (holiday pay on overtime)</b>	<b>N/A</b>	<b>N/A</b>	The Section 151 Officer / Exchequer Services Manager has stated that this piece of work is no longer required.
<b>Fixed Asset Register</b>	<b>Fieldwork in progress</b>		This piece work is being completed by Lancashire Cuntly Council, however owing to the Covid-19 pandemic, fieldwork has been delayed. The work will be completed as soon as normal business resumes.
<b>Property Investment Strategy</b>	<b>No Report Issued</b>	<b>Substantial</b> ✓	<p>The Principal Auditor attended two capital strategy group meetings in September and November 2019 to see how the due diligence process worked and to give assurance on the process. Whilst the due diligence process is considered robust and fit for purpose, the first acquisition as at the 3 March 2020 had yet to be made, therefore it was decided to review any acquisitions as part of the 2020/21 audit plan.</p> <p>For the purpose of this annual audit report, an opinion of 'substantial' has been given in respect of the controls in place for the due-diligence checks to be completed prior to any acquisitions.</p>
<b>Planning - Education Contributions</b>	<b>No Report Issued</b>	<b>Substantial</b> ✓	<p>This piece of work was requested by the previous Monitoring Officer following concerns with Lancashire County Council's methodology for calculating planning educations contributions. Whilst the Principal Auditor did not identify any concerns and was happy that the sample of the Council's calculations were in line with Lancashire County Council's methodology it is understood that a consultation is in the process of being completed, therefore may be subject to change.</p> <p>For the purpose of this annual audit report, an opinion of 'substantial' has been given in respect of the methodically is to calculations planning education contributions.</p>
<b>Vehicle Maintenance Unit</b>	<b>Report Issued August 2019</b>	<b>Limited</b> ⚠	This piece of work was followed up in February 2020 – see below
<b>Dog Warden - Enforcement</b>	<b>N/A</b>	<b>N/A</b>	This piece of work is no longer required given the scope of the audit in respect of Dog Seizure and Kennelling Service.
<b>Council Tax - Occupation</b>	<b>Briefing Note Issued</b>	<b>Substantial</b> ✓	

<b>Validation (Preston)</b>			
<b>Council Tax - Occupation Validation (Lancaster)</b>	<b>Briefing Note Issued</b>	<b>Substantial</b> ✓	
<b>Housing Benefits - E forms (Lancaster)</b>	<b>N/A</b>	<b>N/A</b>	This piece work was due to be completed in quarter four, however owing to other work commitments in the Housing Benefit Section and then more recently the Covid-19 pandemic, this piece of has been delayed. The work will be completed as soon as normal business resumes.
<b>Data Protection – Policy and Process Review</b>	<b>Draft Report Issued May 2020</b>	<b>Limited</b> ⚠	This piece of work was completed by Merseyside Internal Audit Service. This piece of work will be followed up on an on-going basis given the number of recommendations and the time required to implement.

<b>Follow-up work completed / due in 2019/20</b>			
<b>TITLE</b>	<b>STATUS</b>	<b>Level of Assurance</b>	<b>Summary</b>
<b>White Lund Nursery Income Management</b>	<b>Follow-up Report Issued August 2019</b>	<b>Substantial</b> ✓	
<b>Learning and Development</b>	<b>Follow-up Report Issued August 2019</b>	<b>Substantial</b> ✓	
<b>Procurement &amp; Contract Management</b>	<b>To be completed</b>	<b>N/A</b>	The original procurement audit was completed in September 2018 as part of the 2018/19 audit plan and an overall limited assurance was given. This was due to be followed-up in April 2019 but was delayed awaiting the publication of the national procurement strategy so that the council could refresh its own procurement strategy. This strategy has since been produced, however is



			yet to go to Full Council for approval. Once approved a post audit review will be completed.
<b>Dog Seizure and Kennelling Service</b>	<b>Follow-up Report Issued February 2020</b>	<b>Limited</b> 	The original report was issued in November 2018. It was subsequently followed-up in February 2020 with a further review date agreed of July 2020.
<b>Asset Management</b>	<b>N/A</b>	<b>N/A</b>	This piece of work was first completed in December 2017 and received a limited assurance opinion. It was subsequently followed-up in December 2018 and August 2019 and remained at limited. Due to the lack of progress made, it was agreed that the development and delivery of the asset management plan would be monitored and reviewed through the council's strategic risk register. However, it should be noted that owing to the Covid-19 pandemic, work on risk management has been put on hold.
<b>Vehicle Maintenance Unit</b>	<b>Follow-up Report Issued February 2020</b>	<b>Substantial</b> 	
<b>Fees and Charges – Legal Services</b>	<b>Follow-up Report Issued February 2020</b>	<b>Substantial</b> 	
<b>Insurance</b>	<b>Follow-up Report Issued July 2020</b>	<b>Limited</b> 	<p>This piece of work was first reported in November 2019 and received a limited assurance opinion. It was subsequently followed up in June 2020 and although good progress has been made to implement the majority of the action plan, it is disappointing to report that the insurance claims database that was required to be developed and continually maintained, is still insufficient.</p> <p>Following examination of the spreadsheet dated 4 June, it was identified that some of the data was recorded in the incorrect fields and several dates were either incorrect or missing. It also appeared from the data that a number of claims had not been progressed since they were first logged; for example a claim logged on the 30 January 2020 does not show any updates as to the status of this claim. There is a concern that if this spreadsheet is to be used to generate reports in its current format, reporting would not only be inaccurate but would not assist the Insurance Officer or anyone else having to provide cover in her absence.</p>

			The issues arising will be discussed with the Insurance Officer and a further follow-up review will be carried out in September 2020.
<b>Payroll</b>	<b>To be completed</b>	<b>Limited</b> 	The original report was issued in August 2019 with a subsequent follow-up review due in May 2020, however owing to the Covid-19 pandemic and the retirement of the Exchequer Services Manager this follow-up has been delayed. There are several officers who will be required to assist with this work who have been re-deployed elsewhere. This will be re-visited once normal business has been resumed.
<b>Creditors</b>	<b>N/A</b>	<b>Limited</b> 	This original report was issued in May 2019 and was given a limited assurance opinion. However, all recommendations in the action plan were to be addressed as part of the Procure to Pay project. Given that this project is still on-going these actions are still outstanding, therefore the assurance provided remains at limited.
<b>Asbestos Management – Council Housing</b>	<b>To be completed</b>	<b>Limited</b> 	The original report was issued in May 2019 with a subsequent follow-up review due in November 2019 however due to limited resources, this follow-up is still outstanding.

## **Other audit work undertaken:**

### **Investigations**

There have been no internal investigations carried out by Internal Audit or the Corporate Enquiry Team during 2019/20.

### **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. Following a data breach in January 2017 the Council commissioned an external company; Baker Lomax Services (BLS) to undertake a review of the council's policy and procedures. An extensive action plan was formulated which highlighted 185 actions over twelve different areas that required attention. Whilst a considerable amount of work has been completed, the team have struggled to keep on top of implementing the action plan with having to respond to numerous requests for assistance with essential project work across the council, in addition to a significant amount of resources on the management of the Council's Freedom of Information Requests. Following discussions with Information Governance Manager (Data Protection Officer), 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 have only just been received and a final report has yet to be published. The draft report, which included 48 recommendations (0:critical, 14:high, 33:medium and 1:low) recognised that significant work has been made in some areas, however there was still a number of areas that required immediate attention, therefore only 'limited' assurance has been provided.

### **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 are independently and consistently applied and reviewed and approved on a regular basis, a decision was made to move all the policies 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, owing to the council's Money Laundering Reporting Officer being the Council's Section 151 Officer. This policy will be reviewed later in the year and submitted to the Audit Committee for approval. All the remaining policies have now been refreshed and approved by the Audit Committee in November 2019.

An ethical governance survey was completed by the Internal Audit Team in 2018 to test staff knowledge and understanding of the Council's key counter fraud policies. Any gaps in knowledge and understanding have been addressed in the Annual Governance Statement action plan for 2019/20.

### **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 annual self-assessment completed in July 2020 by the Internal Audit and Assurance Manager and ratified by the Head of Finance (Section 151 Officer) identified no issues that required following-up or reporting in the 2019/20 Annual Governance Statement.

In addition, 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 in March 2018. The report was presented to the Audit Committee on the 23 May 2018. Only 4 points for consideration were identified, all of which have been considered and implemented where appropriate. The next peer review is scheduled for February 2023.

### **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 following the external validation in March 2018 and the self-assessment in July 2020, there are no significant deviations to report in the 2019/20 Annual Governance Statement.

### **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. Whilst good progress was made in populating the system with the strategic risks, which involved scoring and action planning, both the Principal Auditor and the Internal Audit and Assurance Manager have been redeployed to work in other areas following the Covid-19 pandemic, therefore the development of the system and the monitoring of the existing strategic risks has been put on hold.

Once normal business resumes, the next steps will be to roll out the Risk Management Policy, deliver corporate risk management training, shortly followed by the implementation of operational risks registers.

## **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.

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

Whilst there are a number of audits that have still to be finalised owing to the delays caused by the Covid-19 pandemic, it is in my opinion, that of the work completed, in respect of council's internal control environment, the council has satisfactory controls in place 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, and follow-up reviews have been scheduled. Once the actions have been addressed it should result in substantial assurance being provided.

In relation to risk management, as detailed above, whilst significant progress was being made at the start of the year with the development and approval of a Risk Management Policy, the procurement and implementation of risk management software and the production of a strategic risk register; unfortunately progress in embedding risk management has now been delayed and it is unknown at this current time, what resources will be available going forward to dedicate to risk management given both the Internal Audit and Assurance Manager and the Principal Auditor have been redeployed during the Covid-10 pandemic. Therefore, it is in my opinion, that risk management should be reported in the Council's AGS for the year 2019/20 as an area still requiring attention.