

Internal Audit Progress Report Audit Committee (November 2022)

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.

Reports prepared by MIAA are prepared for your sole use and no responsibility is taken by MIAA or the auditors to any director or officer in their individual capacity. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose and a person who is not a party to the agreement for the provision of Internal Audit and shall not have any rights under the Contracts (Rights of Third Parties) Act 1999.

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 May 2022 to November 2022.

2 Executive Summary

There has been the focus on the following areas:

2021/22 Audit Reviews

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.

These reviews will be included in the 2022/23 Head of Internal Audit Opinion.

Since the we last reported our progress to the Audit Committee in May, the following reviews have been finalised:

- **Main Accounting System** (Substantial Assurance)
- **Treasury Management System** (Substantial Assurance)
- **Council Tax** (Moderate Assurance)
- **Conflicts of Interest** (Substantial Assurance)
- **Purchase to Pay System** (Limited Assurance)
- **Business Support Grants** (Substantial Assurance)
- **Risk Management** (No Assurance)

Grant Funding: We have also completed reasonable checks on the Local Authority Test and Trace Support Payment Scheme Funding 2020/21 and 2021/22 submissions along with the Contain Outbreak Management Fund 2020/21 and 2021/22 to ensure that conditions of the fund were met.

The reviews below are currently at draft report stage or are in progress:

	<ul style="list-style-type: none">• Efficiency Programme Delivery (draft report)• Property Investment Strategy – Capital Schemes (draft report)• Collection of Income and Reconciliations – (draft report)• HR Assurance Review – (work in progress) <p>Appendix C provides details of Key Areas and Actions to be delivered.</p>
2022/23 Audit Reviews	<p>We have started to progress with the 2022/23 audit plan. The following 2022/23 reviews are progressing in fieldwork stage:</p> <ul style="list-style-type: none">• Data Protection and Policy Follow-up Review• Council Time Recording Systems• IT Resilience/Cyber <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">• Externally Managed Events• CCTV Compliance• Assurance Mapping Exercise <p>Appendix A provides an overview of the delivery of your Head of Internal Audit Opinion for 2022/23.</p> <p>Appendix B provides information on Internal Audit performance.</p>
Follow-up	<p>A summary of the current status of follow-up activity is included in Appendix D, however, we would draw the committee’s attention to the following:</p> <ul style="list-style-type: none">• We have followed up three limited assurance reports from the previous auditors, along with the reports we have recently issued.• There were 73 actions followed up with 20 completed and of the remaining 53, 22 were not due, 11 are in progress and 20 have not yet been started or we are awaiting an update.
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">• We have used the time assigned to Information Governance in the 2021/22 Audit Plan for the work completed on Grant Funding.• We propose to reschedule the Recruitment review from Quarter 3 to Quarter 4. This is due to other reviews already ongoing in HR and the introduction of a new Policy.• We propose to replace the Apprenticeships Review with another review to be advised. This is due to the Council not currently having Apprentices or an Apprenticeship Policy. This is planned to be introduced in 2023/24.
MIAA Quality of Service Indicators	<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>
Insights	<p>Collaborative Masterclass Events</p> <ul style="list-style-type: none">• Digital as Disrupter (24th November 2022)• The Psychology of Leading High Performance Teams (8th December 2022)• Leading for Social Justice and Health Equality (2nd February 2023)

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
2021/22 Reviews		
Risk Management	Completed	No Assurance
Main Accounting System	Completed	Substantial Assurance
P2P Systems Assurance	Completed	Limited Assurance
Treasury Management	Completed	Substantial Assurance
Collection of Income & Reconciliations*	Draft Report	
Housing Benefit	To be delivered by Preston City Council	
Property Investment Strategy / Capital Schemes*	Draft Report	
Council Tax*	Completed	Moderate Assurance
NNDR	To be delivered by Preston City Council	
Business Grants	Completed	Substantial Assurance
Efficiency Programme Delivery *	Draft Report	
Effectiveness of HR Arrangements*	Phased review	
Conflicts of Interest & Gifts and Hospitality	Completed	Substantial Assurance

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

2022/23 Reviews		
HOIA Opinion Area	Status	Assurance Level
Risk Management		
Risk Management	Q4	
Risk Based Reviews		
Key Financial Controls	Q4	
Budgeting	Q3	
Project/Contract Management	Q4	
Assurance Mapping	Planning	
Climate Change/Carbon Neutral Work	Q4	
Recruitment	To be moved from Q3 to Q4	
Council Resilience/Emergency Preparedness	Q4	
Apprenticeships	To be replaced	
Time Recording Systems	In progress	
CCTV Compliance	Planning	
Externally Managed Events	Planning	
Data Protection and Policy Follow-up	In progress	
IT Resilience/Cyber	In progress	
Follow Up		
Quarter 2	Completed	N/A
Quarter 4	Scheduled Q4	

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

Report Title	Main Accounting System			
Executive Sponsor	Head of Financial Services and Section 151 Officer			
Objective	To provide assurance that the Main Accounting System Function was operating effectively to manage the cash flow requirements of the Council			
Assurance Level	Substantial			
Recommendations	0 X Critical	0 x High	2 x Medium	2 x Low
Summary	<p>Overall, the review identified that controls were designed and operating effectively.</p> <p>Control and bank reconciliations were completed timely in accordance with a reconciliation list maintained. The ledger and bank control accounts were all reviewed and approved separate from the original preparer of the reconciliation. The manager was undergoing a separate review of reconciling items on the payroll reconciliations, the approval of these could not be evidenced at the time of the review.</p> <p>Bank reconciliations could be improved, by making items clearer and amounts actioned on a timely basis.</p> <p>The system back up processes were carried out. The general ledger and feeder system interface was carried out with any validation errors held in a suspense account, investigated and cleared following the interface.</p> <p>The general ledger system used, Civica, has an in-built requirement that journals are approved according to a hierarchical structure.</p> <p>The cabinet were found to be involved in discussion and approval of the budget for the periods 2021/22 and 2022/23 and were also 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.</p>			
Key Risks Highlighted with No Agreed Action	N/A			

Report Title	Treasury Management System			
Executive Sponsor	Head of Financial Services and Section 151 Officer			
Objective	To provide assurance that the Treasury Management Function was operating effectively to manage the cash flow requirements of the Council.			
Assurance Level	Substantial			
Recommendations	0 X Critical	0 x High	1 x Medium	4 x Low
Summary	<p>Overall, the review identified that controls were designed and operating effectively to manage the cash flow requirements of the Council. There is adequate segregation of duties within treasury management processes and robust arrangements for monitoring investments to ensure that there remain within the limits prescribed within the Treasury Management Strategy. There were no borrowing transactions in 2021/22 and therefore we were unable to undertake any testing in this area.</p> <p>Reporting to Council met the requirements of the Financial Procedure Rules and Treasury Management Practices. However, the Treasury Management Practices have not been updated since 2011 and do not reflect current working arrangements and the CIPFA updated Treasury Management code.</p>			
Key Risks Highlighted with No Agreed Action	N/A			

Report Title	Council Tax			
Executive Sponsor	Head of Financial Services and Section 151 Officer			
Objective	To evaluate the effectiveness of the controls in place to manage key risks that would affect the effective operation of the system for Council Tax.			
Assurance Level	Moderate			
Recommendations	0 X Critical	1 x High	4 x Medium	3 x Low

<p>Summary</p>	<p>Overall, the review identified that there was an adequate system of internal control in place with Preston Council administering the Council Tax provisions on behalf of Lancaster Council.</p> <p>We confirmed that the Councils jointly had in place adequate processes around the collection of Council Tax and sufficient evidence was provided to support discounts and exemptions and debt recovery processes were in place to recover arrears and approve refunds and write offs in accordance with the Council's policies.</p> <p>Our testing further highlighted that Single Person Discounts have not been reviewed in some cases since 2008. Controls could also be further improved by ensuring accurate input of Valuation Office Agency (VOA) information into the academy system, ensuring detailed notes of discounts and exemptions are maintained on property accounts, the council tax suspense account and council arrears are reviewed and cleansed as well as ensuring, going forwards, all reconciliation completed detail the preparer, approver and dates.</p>
<p>Key Risks Highlighted with No Agreed Action</p>	<p>N/A</p>

<p>Report Title</p>	<p>Conflicts of Interest</p>			
<p>Executive Sponsor</p>	<p>Monitoring Officer</p>			
<p>Objective</p>	<p>To evaluate the design and operating effectiveness of the arrangements that the Council had in place to manage conflicts of interest and gifts and hospitality, in line with Local Authority guidance.</p>			
<p>Assurance Level</p>	<p>Substantial</p>			
<p>Recommendations</p>	<p>0 X Critical</p>	<p>0 x High</p>	<p>4 x Medium</p>	<p>5 x Low</p>
<p>Summary</p>	<p>Overall, it was found that the Council has an appropriately designed system of control in relation to managing conflicts of interest, although we have noted some areas for further enhancement. The key issues identified related to the operation of the controls in place. The Council had a paper-based system in place to enable Officers and Councillors to declare any conflicts of interests including nil declarations. The Council's Constitution, Councillors' Code of Conduct and Officer Code</p>			

	of Conduct was in place which provided guidance in declaring conflicts of interests.
Key Risks Highlighted with No Agreed Action	N/A

Report Title	Purchase to Pay (P2P) System			
Executive Sponsor	Head of Financial Services and Section 151 Officer			
Objective	To provide assurance that the most significant key controls in the P2P system processes were appropriately designed and operating effectively in practice.			
Assurance Level	Limited			
Recommendations	0 X Critical	3 x High	2 x Medium	0 x Low
Summary	<p>Our review identified weaknesses in relation to the controls in place within the Council's 'purchase to pay system'. We identified three high risk findings in relation to the design and operation of the controls in place which has therefore resulted in an overall limited assurance opinion being provided.</p> <p>Through our testing we found evidence of a lack in the segregation of duties in some areas.</p> <p>Testing also identified that some invoices could not be automatically 'matched' to either a purchase requisition; purchase order or a supporting goods received note and a significant number of supporting goods received notes were dated post the suppliers invoice date.</p>			
Key Risks Highlighted with No Agreed Action	N/A			

Report Title	Business Support Grants			
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 the payment of Business Support Grants during the Covid-19 pandemic.			
Assurance Level	Substantial			
Recommendations	0 X Critical	0 x High	1 x Medium	3 x Low
Summary	<p>The pandemic resulted in a number of new grant payments being made to businesses, based on central government guidance, administered by local government.</p> <p>The Council ensured that sufficient segregation existed between those staff assessing applications and those authorising payments. National guidance was followed, but the Council did not create procedure documents.</p> <p>The Council undertook the checks for payment of grants on a pre-assurance basis in accordance with Department of Business, Energy and Industrial Strategy (BEIS) guidance. The evidence required for a selection of grants was present in all cases reviewed. However, there was no post assurance system in place to ensure that all grants were paid in accordance with scheme guidelines.</p>			
Key Risks Highlighted with No Agreed Action	N/A			

Report Title	Risk Management			
Executive Sponsor	Head of Financial Services and Section 151 Officer			
Objective	To provide assurance on the design and operating effectiveness of the Council's risk management processes.			
Assurance Level	No Assurance			
Recommendations	1 X Critical	4 x High	0 x Medium	0 x Low
Summary	The review identified that there were 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			

	<p>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.</p> <p>It is acknowledged that there are some pockets of risk management in operation, including department 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.</p> <p>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.</p> <p>A progress update was provided to Audit Committee in May 2022 by the Section 151 Officer which provided a summary position on overall risk management and acknowledged the current position.</p> <p>Since the report was issued, corporate support for Risk Management practice across the organisation is now within the Office of the Chief Executive. A detailed project plan has been developed to address the issues and recommendations raised within this report</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 November 2022

AUDIT TITLE (YEAR)	NO OF RECS MADE	ASSURANCE LEVEL	PROGRESS ON IMPLEMENTATION				OUTSTANDING RECOMMENDATIONS			
			✓/S	P	X	Not due	C	H	M	L
Previous Audit Team Reviews										
Debt Legal Recovery Services (2021/22)	5	Limited	2	-	3	-	-	-	-	-
Insurance (2019/20)	11	Limited	7	4	-	-	-	-	-	-
Procurement & Contract Management (2018/19)	18	Limited	1	-	17	-	-	-	-	-
GDPR	Being followed up as a separate review in the 2022/23 Audit Plan									
MIAA Audit Reviews										
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	1	1	-	6	-	1	3	2
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	-	-	1	4	-	-
TOTALS	73		20	11	20	22	1	7	8	13

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 putting in place updated guidance and 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 are awaiting an update. Actions outstanding are regarding Policies and Procedures and training.

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"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations.
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"> has a low impact on the achievement of the key system, function, or process objectives. has exposed the system, function, or process to a key risk, however the likelihood of this risk occurring is low.
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.