

Internal Audit Annual Report & Head of Internal Audit Opinion 2022/23

Lancaster City Council

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1 Executive Summary

We are pleased to have provided your internal audit services for 2022/23. The highlights of the delivery of our services are summarised in this report.

This annual report provides your 2022/23 Head of Internal Audit Opinion, together with the planned internal audit coverage and outputs during 2022/23 and MIAA Quality of Service Indicators.

Key Area	Summary
Head of Internal Audit Opinion	<p>The overall opinion for the period 1st April 2022 to 31st March 2023 provides Moderate Assurance, 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.</p> <p><i>In considering the overall opinion, we have recognised the improvement and development of Risk Management at the Council in the last year and this has been reflected in the Council moving just over the threshold from the previous overall limited opinion in 21/22 to an overall moderate opinion for 22/23. We have also considered that Internal Audit resource has been directed into known risk areas by Council Officers and the Audit Committee which has resulted in a number of moderate and limited assurance opinions being provided for individual reviews. Moving forward, the Council needs to ensure that there is a continued focus on the strengthening of its control framework.</i></p> <p>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 financial challenges and increasing collaboration across organisations and systems.</p> <p>In providing this opinion we can confirm continued compliance with the definition of internal audit (as set out in your Internal Audit Charter), code of ethics and professional standards. We also confirm organisational independence of the audit activity and that this has been free from interference in respect of scoping, delivery and reporting.</p> <p>The purpose of our Head of Internal Audit (HoIA) Opinion 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 system of internal control. As such, it is one component that the Council takes into account in making its Annual Governance Statement (AGS).</p> <p>The opinion does not imply that we have reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework.</p>

<p>Planned Audit Coverage and Outputs</p>	<p>The 2022/23 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"> • The organisation’s assurance framework; • Core and mandated reviews, including follow up; and • A range of individual risk-based assurance reviews. <p><i>Please include the summary text in the table above when referring to the HoIA Opinion in your AGS.</i></p>
<p>Recommendations / Management Actions</p>	<ul style="list-style-type: none"> • We have raised 71 recommendations as part of the reviews undertaken during 2022/23. All recommendations raised by MIAA have been accepted by management. • Of these recommendations: none were critical and 10 were high risk recommendations in relation to the reviews of Collection of Income & Reconciliations, Council Tax, Efficiency Programme Delivery, Council Resilience, Recruitment and Project Management. • During the year, we have undertaken follow up reviews and can conclude that the organisation have had 33 actions implemented or superseded during 2022/23 • The total number of recommendations yet to be implemented as at March 2023 is 61, with 41 of these not yet due, of the remaining 20 recommendations 18 of these relate to the previous in house audit team and do not have a risk rating. The two which have a risk rating are one medium and one low.
<p>MIAA Quality of Service Indicators</p>	<p>MIAA operate systems that comply with 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 PSIAS. We undertake regular internal assessments to ensure our ongoing compliance with requirements. We also conduct an annual self-assessment of compliance with PSIAS and we continue to confirm full compliance with these standards.</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 in 22/23 MIAA is now certified to the national Cyber Essentials Plus standard.</p>

2 Head of Internal Audit Opinion

Your internal audit service has been performed in accordance with MIAA's internal audit methodology which conforms with PSIAS. PSIAS require that we comply with applicable ethical requirements, including independence requirements, and that we plan and perform our work to obtain sufficient, appropriate evidence on which to base our conclusion.

2.1 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 AGS is an annual statement by the Leader of the Council and 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 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.

The organisation's assurance framework should bring together all of the evidence required to support the AGS requirements.

In accordance with Public Sector Internal Audit Standards, the 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, agreed with management 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.

2.2 Opinion

Our opinion is set out as follows:

- Basis for the Opinion;
- Overall Opinion; and
- Commentary

2.2.1 Basis for the Opinion

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.

2.2.2 Overall Opinion

Our overall opinion for the period 1st April 2022 to 31st March 2023 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.	✓
Limited Assurance, 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.	

2.2.3 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 1st April 2022 to 31st March 2023 inclusive, and is underpinned by the work conducted through the risk-based internal audit plan.

Assurance Framework

Our work has consisted of:

- Assessing progress with implementing the recommendations from the internal audit review of risk management which was completed in 2021/22 and provided no assurance. This review identified that there was no or very limited central operational or strategic risk management oversight processes in operation throughout 2021/22.
- Conducting a further Risk Management Review in 2022/23 to consider the design and operating effectiveness of the Council's risk management processes which provided moderate assurance. A refreshed risk management implementation project has taken place and delivered in line with its expectations. A key positive difference to the previous implementation has been engagement with service users to facilitate risk recognition and system familiarisation. At the conclusion of our review of the improvement project, we were able to conclude that good progress had been made in populating the registers, and a new Policy had been introduced, along with a governance process, with the Strategic Risk Register being updated and presented to the Audit Committee regularly. Further areas for improvement are being actioned which will provide users with 'on the job' training to enhance risk register quality.

Core & Risk-Based Reviews Issued

We issued:

No high assurance opinions:	No reviews received High Assurance	Four limited assurance opinions:	Collection of Income and Reconciliations* Council Resilience Data Protection and Policy Follow-up CCTV Compliance – <i>Draft</i>
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Three substantial assurance opinions:	Property Investment Strategy/Capital Schemes* Budgeting Externally Managed Events	No no assurance opinions:	No reviews received No Assurance
Seven moderate assurance opinions:	Council Tax* Efficiency Programme Delivery* Risk Management Council Time Recording Systems Project Management Cyber Security Recruitment – <i>Draft</i>	Two reviews without an assurance rating	Effectiveness of HR Arrangements*: <i>good progress with implementation of actions</i> Assurance Mapping

Concluding Review: The Key Financial Controls Review is being concluded. The findings from the work and an indicative assurance opinion has been considered as part of the overall opinion. As such, the issue of the final report relating to this review will not impact on the overall assurance level provided in this report.

*21/22 reviews which were concluded during 22/23 and were not included within the 21/22 HoIAO.

Follow Up

During the course of the year we have undertaken follow up reviews and can conclude that the organisation has made **reasonable progress in some areas** with regards to the implementation of recommendations, noting that a number of recommendations have been superseded or not yet due. We will continue to track and follow up outstanding actions.

3rd Party Assurances

We have also considered the following assurances:

- DWP Subsidy – assessed as ‘certified’ by KPMG
- Revenues and Benefits Online Claim Form – assessed as ‘substantial assurance’ and carried out under the Shared Service Agreement with Preston Council
- Revenues and Benefits Application (Technical Audit) – assessed as ‘substantial assurance’ and carried out under the Shared Service Agreement with Preston Council by Salford Technical Audit

Chris Harrop

Managing Director, MIAA
July 2023

Louise Cobain

Assurance Director, MIAA
July 2023

3 Internal Audit Coverage and Outputs

The 2022/23 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.

Of the reviews completed in the year, assurance ratings were given in 14 cases. Assurance ratings were not applicable 2 reviews, due to the nature of this work. 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 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	Moderate	0	0	5	0	5
2	Collection of Income and Reconciliations*	Limited	0	2	0	2	4
3	Key Financial Systems- <i>Draft</i>	To be agreed	N/A				N/A
4	Property Investment Strategy/Capital Schemes*	Substantial	0	0	1	1	2
5	Council Tax*	Moderate	0	1	4	3	8
6	Efficiency Programme Delivery*	Moderate	0	1	3	1	5
7	Effectiveness of HR Arrangements Briefing Note*	N/A	Feedback provided separately				N/A

	Review	Assurance Opinion	Recommendations Raised				
			Critical	High	Medium	Low	Total
8	Budgeting	Substantial	0	0	1	2	3
9	Council Resilience/Emergency Preparedness	Limited	0	3	3	1	7
10	Externally Managed Events	Substantial	0	0	1	6	7
11	Time Recording Systems	Moderate	0	1	3	3	7
12	CCTV Compliance - <i>Draft</i>	Limited	N/A				N/A
13	Data Protection and Policy Follow-up	Limited	Follow-up of previous recommendations				N/A
14	Recruitment - <i>Draft</i>	Moderate	0	1	4	1	6
15	Project Management	Moderate	0	1	8	1	10
16	Assurance Mapping Briefing Note	N/A	Feedback provided separately				N/A
17	IT Resilience/Cyber	Moderate	0	0	5	2	7
		TOTAL	0	10	38	23	71

*21/22 reviews which were concluded during 22/23 and not included within the 21/22 HoIAO

We will continue to follow up progress against all recommendations as part of the 2023/24 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.

Review of Audit Committee Terms of Reference

Review and Chief Internal Auditor Declaration of Biodiversity Net Gain Grant Review

Review and Chief Internal Auditor Declaration of Contain Management Outbreak Fund (COMF) Grant 2020/21 & 2021/22 Grant Claims

Review and Chief Internal Auditor Declaration of Local Authority Test and Trace Support Payment Scheme Funding (TTSP) Grant 2020/21 & 2021/22 Grant Claims

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 Officer/ Senior Management Team, regular review of Council papers and work to develop the assurance framework.

Involvement with the organisation in respect of advice and guidance relating to corporate governance documentation and assurance mapping.

Ongoing discussion with Lead Officers, Managers and Members throughout the year.

Delivery and input into Audit Committee member training sessions.

Effective utilisation of internal audit including in year communication, requests for support in Eden Project Governance and changes to the audit plan in respect of Apprenticeships, Project Management and Contract Management.

To keep our clients informed on emerging governance and wider policy developments we ran 5 events in 22/23 as part of our North West Masterclass Collaboration. Each event was accompanied by an event summary published on our website.

Continued involvement and representation on National Bodies including the Institute of Internal Auditors (IIA) and CIPFA enabling us to be proactive in sharing best practice, wider benchmarking and providing early insights on national issues.

4 Areas for Consideration – your AGS

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:

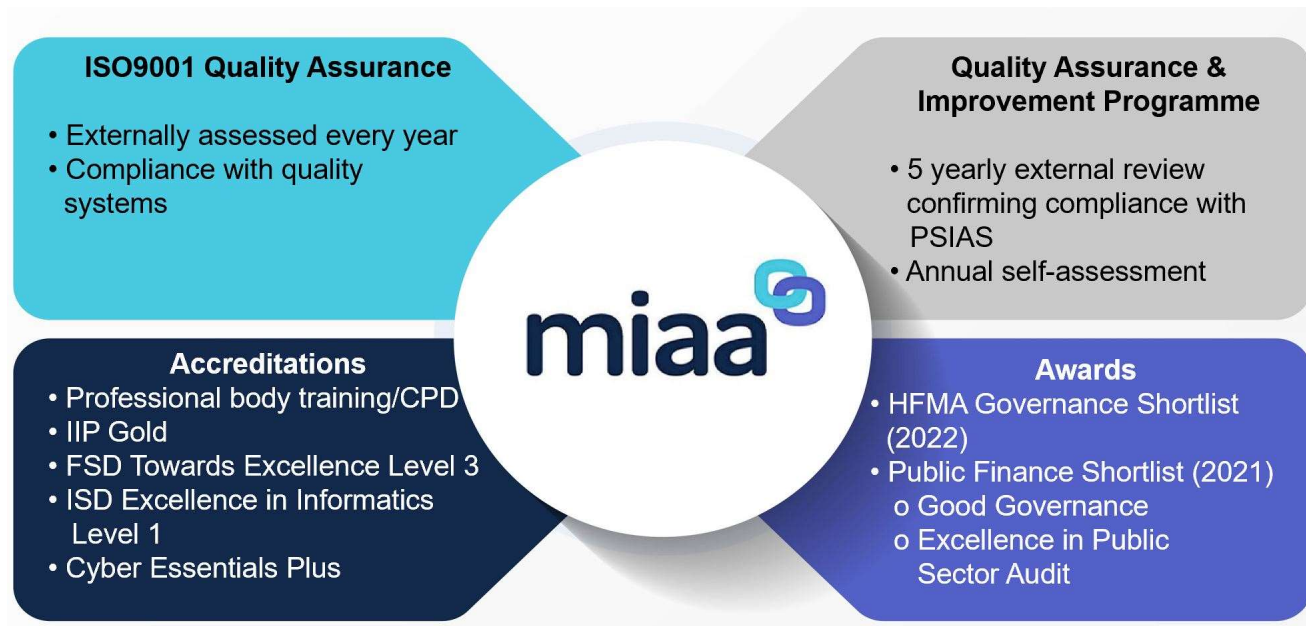
- Wider partnership/ collaborative working and engagement across the Lancashire Footprint (e.g. Lancashire Resilience Forum).
- Continued establishment and delivery of cross-organisation arrangements for the Better Care Fund and other pooled budgets development (e.g. Education, Lancashire County Council and the Health & Wellbeing Board)
- 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 (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/Service leadership, including any significant changes to the Council 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).
- Compliance with all relevant laws, standards and regulations.
- Organisation performance, including challenges in achieving financial duties, delivery of Priority Based Budgets and service pressures managed in year.
- Wider partnership working risks and challenges.

5 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 how we supporting them, staffing levels, compliance and outcome measures.

Professional Standards and Accreditations

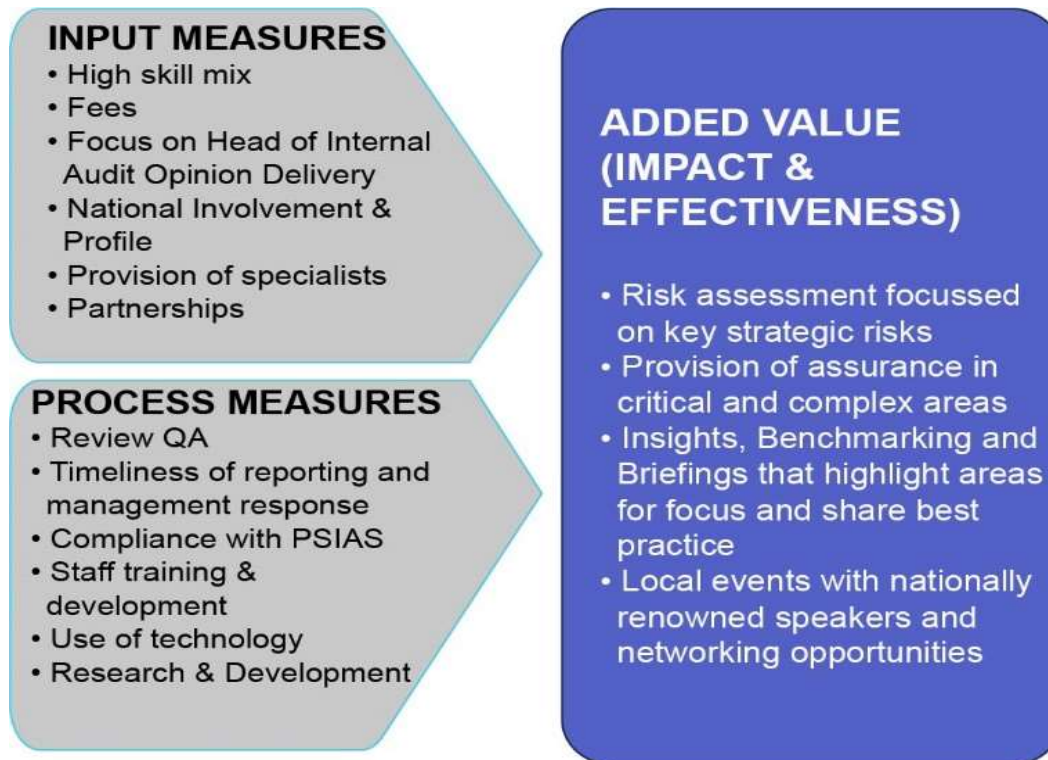
MIAA comply fully with professional best practice, internal audit standards and legal requirements. We assess our compliance with the PSIAS each year and can confirm ongoing compliance with required standards.



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.



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