



Internal Audit Progress Report Audit Committee (July 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.

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 2022/23 and 2023/24 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 of May 2023 to July 2023.

2 Executive Summary

There has been the focus on the following areas:

2022/23 Audit Reviews	<p>Since the previous Audit Committee, the following reviews have been finalised:</p> <ul style="list-style-type: none">• Assurance Mapping Exercise – Assurance rating not provided.• Council Time Recording Systems – Moderate Assurance• Risk Management – Moderate Assurance• Project Management – Moderate Assurance• Data Protection and Policy Follow-up Review – Limited Assurance <p>Appendix C provides details of Key Areas and Actions to be delivered.</p> <p>The following 2022/23 reviews are progressing or are in draft report stage:</p> <ul style="list-style-type: none">• CCTV Compliance (Draft Report)• Key Financial Controls (Draft Report)• Recruitment (In progress)• Contract Management (In progress)• Climate Change (In progress)
2023/24 Audit Reviews	<p>The following 2023/24 audit review is being scoped:</p>

	<ul style="list-style-type: none"> • Efficiency Savings Review <p>Appendix A provides an overview of the delivery of your Head of Internal Audit Opinion for 2023/24.</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 118 actions followed up with 35 completed or superseded and of the remaining 83, 50 were not due, 21 in progress and 12 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"> • At the request of management, we would like to move the Corporate Health and Safety Review from quarter 2 to quarter 3. This will allow further improvement work to be completed by the Council.
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>
Cyber Essentials	<p>MIAA are committed to delivering and demonstrating the highest standards of information governance and cyber security in order to</p>

	<p>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>
Insights	<p>Events</p> <ul style="list-style-type: none">• <u>Strengthening our sector – How we can harness our community assets through effective community leadership (15th September 2023)</u>

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 outstanding 2022/23 Internal Audit reviews. Please note, reviews which were not included in the 2022/23 Head of Internal Audit Opinion*, will be included in the opinion for 2023/24

HOIA Opinion Area	Status	Assurance Level
2022/23 Reviews		
Risk Management	Completed	Moderate
Project Management	Completed	Moderate
Assurance Mapping	Completed	N/A Briefing Note
Time Recording Systems	Completed	Moderate
Data Protection and Policy Follow-up	Completed	Limited
CCTV Compliance	Draft Report	
Key Financial Controls	Draft Report	
Recruitment	Draft Report	
Contract Management*	In progress	
Climate Change*	In progress	

Below sets out the overview of delivery for your Head of Internal Audit Opinion for 2023/24.

2022/23 Reviews		
HOIA Opinion Area	Status	Assurance Level
Risk Management		
Risk Management	Qtr 4	
Risk Based Reviews		

Key Financial Controls	Qtr 3	
Eden Project Governance	All	
Eden Funding Claims	All	
Efficiency Savings	Planning	
Corporate Health & Safety	Qtr 3	
Iken Case Management System	Qtr 2	
Air Quality Duty Review	Qtr 3	
Housing Inspections	Qtr 4	
Payroll (inc. Additional Payments)	Qtr 2	
Mobile Device Management Solution	Qtr 3	

Follow Up

Quarter 1	Completed	N/A
Quarter 2		
Quarter 3		
Quarter 4		

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	There is ongoing engagement and communications regarding delivery of key reviews to support the Head of Internal Audit Opinion.
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	Assurance Mapping
Executive Sponsor	Chief Officer – Policy and People
Objective	To conduct an Assurance Mapping exercise with each Council Service to identify sources of assurance received.
Assurance Level	Not applicable
Summary	<p>The Council has risk registers in all its Directorates which support the Councils Strategic Risk Register. However, what is absent from these risk registers is the assurances which the Council, both positive and negative around the effectiveness of the controls and actions.</p> <p>It is useful to maintain a list of all the assurances that the Council receives both internally and externally to support the risk management process and allow for more accurate evaluation of the effectiveness of the controls in place at the Council.</p> <p>We reviewed the Terms of Reference’s for the Council committees and held discussions with a sample of key individuals at the Council to identify what assurances were received to support the entries on the Strategic Risk Register and those on the Directorate Risk Registers. These discussions identified that the recording of assurances has not been undertaken effectively at the Council.</p> <p>The October 2022 CIPFA Guide - Audit committees: cipfa.org/2022 edition practical guidance for local authorities and police sets out the high-level rationale for an assurance framework – a means to provide greater certainty over the operation of internal control arrangements and the implementation of policies and decisions. The guide also notes that some organisations have taken steps to map or summarise their arrangements in diagrammatic or tabular form and that CIPFA was in the process of establishing more detailed guidance for leadership teams on assurance frameworks, including high-level principles and the ‘Three Lines Model developed by the Institute of Internal Auditors (IIA)</p> <p>The output of the review is a suggested Assurance Map for the Council to use and update on an ongoing basis. This will be taken forward and developed by the Council with support from Internal Audit.</p>

Report Title	Time Recording Systems			
Executive Sponsor	Chief Officer – Policy and People			
Objective	To provide assurance on the systems and processes in place for the consistent capturing and recording of annual leave, sickness, and flexi absences across the council.			
Assurance Level	Moderate			
Recommendations	0 X Critical	1 x High	3 x Medium	3 x Low
Summary	<p>Overall, the review identified some improvements to strengthen the design of the controls and their operation.</p> <p>The council have introduced an online system for recording and approving absence. There is a suite of procedural guides and an App version available for ease of accessibility and use. It contains an embedded hierarchy which ensures that leave is approved by line managers or named deputies in the case of managerial absence.</p> <p>HR advisors have been recruited, to help with the work of the HR Business Partners, to deliver training, review absence reports and help Managers in the management of sickness absence.</p> <p>There were areas identified during the review where improvements are required, most notably the policies and guidelines reviewed were up to 12 years out of date. We understand this is currently being resolved with a member of HR staff performing a review and update. Additionally, testing highlighted return to work interviews, after periods of sickness absence, are either not being completed routinely or are being done outside of the required timeframes.</p> <p>Other points noted include the following:</p> <ul style="list-style-type: none"> • Training in respect of sickness and absence management has not taken place since the pandemic, it is anticipated that the new HR Advisors will be able to recommence the departmental visits in this respect. • There is currently no internal reporting of absence levels to the Management Team or other assurance forum, although reporting was being developed at the time of the audit. • There isn't a consistent flexitime process in place with different forms and approval methods across the Council. Testing also identified that forms were not being fully completed with 			

	<p>instances of forms not being checked or signed by the employee or manager.</p> <ul style="list-style-type: none"> The following years leave allocations and facility for booking leave in the system is added in September of the previous year. This was delayed for 2022/23 due the late addition of an extra bank holiday; this delay resulted in one depot having problems recording leave in the system and a duplication of work as staff were arranging and recording leave manually for the following leave year.
Key Risks Highlighted with No Agreed Action	N/A

Report Title	Risk Management			
Executive Sponsor	Chief Officer – Policy and People			
Objective	To provide assurance on the design and operating effectiveness of the Council’s risk management processes.			
Assurance Level	Moderate			
Recommendations	0 X Critical	0 x High	5 x Medium	0 x Low
Summary	<p>There has been good progress since our previous review. The refreshed risk management implementation project led by the Projects and Performance Manager has 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, good progress had been made in populating the registers, and the first review cycle by the Projects and Performance Manager was commencing. This would identify areas for improvement and provide users with ‘on the job’ training to enhance risk register quality.</p> <p>Moderate assurance represents a good achievement from a position of no assurance in October 2022. We have made recommendations including formal assessment of risk management resources and a training programme to support further improvement.</p>			

Key Risks Highlighted with No Agreed Action	N/A
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Report Title	Project Management			
Executive Sponsor	Chief Officer – Policy and People			
Objective	To provide assurance over the design and operating effectiveness of Project Management arrangements at the Council.			
Assurance Level	Moderate			
Recommendations	0 X Critical	1 x High	8 x Medium	1 x Low
Summary	<p>Overall, the review identified that Project Management controls were generally effective, but improvements could be made to their operation.</p> <p>There was a comprehensive suite of guidance documentation and suggested templates available on the intranet, along with what was described as “invaluable” support and training being provided by the Projects and Performance Team.</p> <p>However, testing highlighted that the templates were not always used as intended, in particular those in respect of Project initiation, start-up and the documentation and approval of any significant changes We noted that changes to Projects were only highlighted when additional funding was required.</p> <p>All projects were linked to delivering the Council’s Corporate Priorities and had key roles and responsibilities assigned with support provided from Finance, Legal and HR where required.</p> <p>Whilst the review focussed on four strategic projects (Mellishaw, Lune Flood Defences, Customer Contact Centre and Working Well), the Council could benefit from putting in place a Project Definition with a set of rules to define small, medium and large projects based not only on financial cost, but complexity and risk to the Council. Differing, appropriate, processes could then be put in place based on each type of identified project.</p> <p>There was a dedicated area on the GRACE risk management system where all live Strategic projects had recorded their risks to enable them to be captured where necessary in the Strategic Risk Register</p>			

	<p>Cost control measures were in place, with each Project being provided with a cost centre. However, it was noted that for one Project tested revenue costs had not been ringfenced into a cost centre and were spread across services areas, making it difficult to track total expenditure against budget.</p> <p>The Leadership Team Meetings play an important role in Project Governance, as they received initial project proposals in order to consider and then decide on approval or, depending upon the nature of the project, whether to submit to the Cabinet and Full Council for consideration. Quarterly performance reporting is undertaken at these meetings prior to being presented to Cabinet and Full Council where necessary. We note that these meetings were not documented to record decisions, or any concerns or issues raised.</p> <p>Regular reporting was received by Cabinet including the quarterly project dashboard. This dashboard risk assesses each project and provides respective budgetary performance information.</p> <p>All of the projects, bar one, were risk assessed as being 'Green'. This would seem to be unrealistic given rising costs and conflicting demands on resources.</p>
<p>Key Risks Highlighted with No Agreed Action</p>	<p>N/A</p>

<p>Report Title</p>	<p>Follow-up - Data Protection: Policy and Process Review</p>					
<p>Executive Sponsor</p>	<p>Chief Officer – Governance and Monitoring Officer</p>					
<p>Objective</p>	<p>To follow up and to obtain assurance that sufficient progress has been made in implementing the actions as detailed in the Data Protection: Policy and Process Report (May 2020) and there was continued oversight, monitoring, and reporting to ensure the council remains compliant with the legal requirements of the Data Protection Act (DPA) 2018.</p>					
<p>Assurance Level</p>	<p>Limited</p>					
<p>Recommendations</p>	<p>Recommendations</p>	<p>No.</p>	<p>Critical</p>	<p>High</p>	<p>Medium</p>	<p>Low</p>
	<p>Made / Agreed</p>	<p>48</p>	<p>-</p>	<p>14</p>	<p>23</p>	<p>1</p>

Fully Implemented		-	-	5	-
Partially Implemented (work in progress)		-	2	9	1
Not Implemented		-	11	20	-
Superseded		-	-	-	-

Summary

The council commissioned MIAA to undertake a review of its Data Protection Policy and Processes. A report was issued in May 2020 which identified areas of good practice but also areas where there were opportunities to strengthen arrangements which resulted in the review being assigned 'Limited' assurance.

Senior management commissioned this follow up review to obtain assurance that sufficient progress has been made in implementing the actions as detailed in the original report and there was continued oversight, monitoring, and reporting to ensure the council remains compliant with the legal requirements of the Data Protection Act (DPA) 2018.

Although some progress has been made to implement the recommendations from the original report, there is still some fundamental weaknesses in the council's data protection framework to ensure ongoing compliance with legislation. In addition, there is a lack of oversight and governance over the council's development and delivery of the Data Protection Framework, including regular reporting of progress to senior management to demonstrate support and backing at the most senior level of management. For example, although the audit in May 2020 included timescales for the delivery of the original agreed actions, these have long expired (September 2021). An action plan was collated by the Information Governance Manager to address the issues but the lack of progress against the action plan (31 out of the 48 recommendations not implemented) has not been escalated at senior management level.

The main areas that require immediate attention include:

- Establishing and documenting a Data Protection Framework within the council and raising awareness across all departments within the council;
- Approval of the recently revised key data protection policies and procedures to underpin current practice;

	<ul style="list-style-type: none">• Creating the Record of Processing Activity (ROPA) as required by the General Data Protection Regulation;• Development and collation of the council’s information asset register;• Data flow mapping including information sharing arrangements;• Review of existing data privacy notices;• Ensure uptake of mandatory information governance training;• Delivery of specific training for Senior Information Risk Owner (SIRO) Information Asset Owners (IAO) Information Asset Administrators (IAA) to fulfil their roles and provide continued guidance to ensure compliance and understanding of the data that the council processes.
Key Risks Highlighted with No Agreed Action	N/A

Appendix D: Follow-up of previous internal audit recommendations

The status of the actions is as at July 2023.

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	3	2	-	-	-	-	-	-
Insurance (2019/20)	11	Limited	7	4	-	-	-	-	-	-
Procurement & Contract Management (2018/19)	18	Limited	6	3	9	-	-	-	-	-
MIAA Audit Reviews										
2021/22 Audit Reviews										
Main Accounting System	4	Substantial	1	3	-	-	-	-	-	3
Treasury Management	5	Substantial	4	1	-	-	-	-	-	1
Business Support Grants (2021/22)	4	Substantial	4	-	-	-	-	-	-	-
Council Tax	8	Moderate	3	4	1	-	-	1	4	-
P2P System	4	Limited	-	2	-	2	-	2	2	-
Conflicts of Interest	9	Substantial	5	2	2	-	-	-	1	3
Efficiency Delivery	5	Moderate	-	-	-	5	-	1	3	1
Property Investment Strategy	2	Substantial	-	-	-	2	-	-	1	1
Collection of Income and Reconciliations	4	Limited	2	-	-	2	-	2	-	-
2022/23 Audit Reviews										
Budgetary Controls	3	Substantial	-	-	-	3	-	-	1	2

AUDIT TITLE (YEAR)	NO OF RECS MADE	ASSURANCE LEVEL	PROGRESS ON IMPLEMENTATION				OUTSTANDING RECOMMENDATIONS			
			✓/S	P	X	Not due	C	H	M	L
Externally Managed Events	7	Substantial	-	-	-	7	-	-	1	6
Resilience and Emergency Preparedness	7	Limited	-	-	-	7	-	3	3	1
Time Recording Systems	7	Moderate	-	-	-	7	-	1	3	3
Risk Management	5	Moderate	-	-	-	5	-		5	-
Project Management	10	Moderate	-	-	-	10	-	1	8	1
Cyber Security	Confidential									
TOTALS	118		35	21	12	50	-	11	32	22

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, which is in progress.

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.