

# Internal Audit Annual Report & Head of Internal Audit Opinion 2024/25 (Draft)

Lancaster City Council

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# 1 Executive Summary

This annual report provides your 2024/25 Head of Internal Audit Opinion, together with the planned internal audit coverage and outputs during 2024/25 and MIAA Quality of Service Indicators.

In accordance with Public Sector Internal Audit Standards, the Head of Internal Audit 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. The opinion should contribute to the organisation's annual governance statement.

Head of Internal Audit Opinion	1 <sup>st</sup> April 2023 – 31 <sup>st</sup> March 2024	1 <sup>st</sup> April 2024 – 31 <sup>st</sup> March 2025	Factors considered in forming our opinion
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.			<ul style="list-style-type: none"> <li>• <b>Inherent risks</b> in the areas audited</li> <li>• <b>Scope limitations</b> of individual audit reviews</li> <li>• <b>Control weaknesses identified</b> and their impact</li> <li>• <b>Internal control environment</b> adequacy and effectiveness</li> <li>• <b>Management's responses</b> to recommendations</li> <li>• <b>Progression of implementation of recommendations</b> by management</li> </ul>
Substantial Assurance, can be given 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.	✓		
<b>Limited Assurance</b> , 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.			

Key Area	Summary
Head of Internal Audit Opinion	<p>As highlighted above, the overall opinion for the period 1<sup>st</sup> April 2024 to 31<sup>st</sup> March 2025 provides <b>Limited Assurance, that 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.</b></p> <p><b>Context:</b> 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 changes in the political landscape, financial challenges and increasing collaboration across organisations.</p> <p><i><b>In considering the overall opinion, we do acknowledge that the Council has directed Internal Audit into known risk areas, thereby effectively utilising internal audit resource. There is oversight of key action plans by the council's leadership team, specifically relating to the critical and high risk rated actions arising from the Procurement review. The council have put in a place a number of measures following the review to address the control weaknesses identified and are continuing to focus upon the remaining areas.</b></i></p> <p><i><b>Moving forward, the Council is committed to strengthening of its control framework with a continuing focus on action plans overseen by the Chief Executive.</b></i></p> <p><b>Compliance with professional standards:</b> 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><b>Purpose:</b> The purpose of our Head of Internal Audit (HoIA) Opinion is to contribute to the assurances available to the Accountable Officer which underpin the Councils 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><i>Please include the summary text in the table above when referring to the HoIA Opinion in your AGS.</i></p>
Scope and Limitations of Our Work	<p>Our opinion is formed through the completion of a risk-based plan of assignments, agreed with management and approved by the Audit Committee.</p>

Key Area	Summary
	<p>Our opinion is subject to the following inherent limitations:</p> <ul style="list-style-type: none"> <li>• We have not reviewed all risks and assurances relating to the organisation.</li> <li>• The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation led assurance framework. The assurance framework is one component that the board takes into account in making its annual governance statement (AGS)</li> <li>• The opinion is based on the findings and conclusions of the agreed audit assignments which were limited to the objectives and scope agreed with management.</li> <li>• Where strong controls have been identified and confirmed, their effectiveness may still be impaired in some instances. This may be due to human error, incorrect management judgement, management override, controls being by-passed or a reduction in compliance.</li> <li>• Due to the limited scope of individual audit assignments, there may be weaknesses in controls which we are not aware of, or which were not brought to our attention.</li> <li>• The points raised in this report relate only to the issues we encountered during delivery of the internal audit service. It is not an exhaustive list of all weaknesses or potential improvements. Management is responsible for maintaining a robust system of internal controls, and internal audit should not be the sole basis for identifying all strengths and weaknesses.</li> <li>• This report is prepared solely for the use of the Audit Committee and/or senior management of Lancaster City Council.</li> </ul>
Planned Audit Coverage and Outputs	<p>The 2024/25 Internal Audit Plan has been delivered with the focus on the provision of your HoIA 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"> <li>• The organisation's Assurance Framework</li> <li>• Core and mandated reviews, including follow up; and</li> <li>• A range of individual risk-based assurance reviews.</li> </ul>

Key Area	Summary
Recommendations / Management Actions	<p>We have raised 73 recommendations as part of the reviews undertaken during 2024/25. All recommendations raised by MIAA have been accepted by management.</p> <ul style="list-style-type: none"> <li>• Of these recommendations: one was critical and 12 were high risk recommendations in relation to the reviews of Procurement Cards, Cash and Card Income, Festival and Charter Markets, Appraisals, Homelessness and Reactive Maintenance.</li> <li>• At the start of 2024/25 there were 67 recommendations outstanding relating to previous years. During the course of the year, we have undertaken follow up reviews from the years 2021/22, 2022/23, 2023/24 and 2024/25 and can conclude that the organisation implemented 75 actions during 2024/25</li> <li>• The total number of recommendations yet to be implemented as at March 2025 is 80, 1 of these is critical risk and 20 of these are high risk and relate to the reviews of Purchase to Pay System, CCTV, Contracts, IKEN System Review, Payroll, Reactive Repairs, Cash and Card Income, Procurement Cards, Homelessness, Festival and Charter Markets and Appraisals.</li> <li>• Of the 80 actions yet to be implemented, no critical risk 16 high risk, 27 medium risk and 20 low risk were overdue at March 2025. The remaining 17 recommendations were not yet due.</li> </ul>
MIAA Quality of Service Indicators	<p>MIAA operate systems to 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 also undertake regular internal assessments to ensure our ongoing compliance with requirements. In year we completed our annual self-assessment of compliance with PSIAS and can 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 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 we are one of only circa 20 NHS organisations certified to the 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</p>

Key Area	Summary
	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.

## 2 The 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 PSIAS, 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.



## 3 Informing our Opinion

### 3.1 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.

### 3.2 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 1<sup>st</sup> April 2024 to 31<sup>st</sup> March 2025 inclusive, and is underpinned by the work conducted through the risk-based internal audit plan.

#### A) Assurance Framework (AF)

Our work has consisted of providing advisory work on Risk Management and training, we have also assessed progress with implementing the recommendations from the internal audit review of risk management that was completed in 2023/24 and provided moderate assurance. Since the review the Council's Risk Management Strategy & Policy are being updated and incorporate a new risk scoring model.

The 2024/25 Risk Management review is at draft report stage and provides Moderate Assurance. A further review of Risk Management is planned for 2025/26.

#### B) Core & Risk-Based Reviews Issued

We issued:

No high assurance opinions:	No reviews have received High Assurance	Three <b>limited</b> assurance opinions:	Cash and Card Income Homelessness Reactive Maintenance*
Three substantial assurance opinions:	Air Quality Duty Social Housing Rent Setting Climate Change*	One <b>no</b> assurance opinions:	Procurement Cards
Four moderate assurance opinions:	Housing Benefit Overpayments Festival and Charter Markets Appraisals Risk Management - Draft	One review with an assurance rating to be confirmed	Key Financial Systems - Draft

\*2023/24 reviews which were concluded during 24/24 and not included within the 23/24 HoIAO.

### C) Follow Up

During the course of the year we have undertaken follow up reviews and can conclude that the organisation has made **some progress** with regards to the implementation of recommendations. We will continue to track and follow up outstanding actions.

### D) Service Auditor Reports

Prior to finalising this opinion we will confirm if further Service Auditor Reports have been issued to the organisation and update our opinion accordingly.

*Chris Harrop*

Managing Director, MIAA  
March 2025

*Louise Cobain*

Assurance Director, MIAA  
March 2025

## 4 Internal Audit Coverage and Outputs

The 2024/25 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.

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 - Draft	Moderate	0	1	2	1	4
2	Key Financial Controls - Draft	To be confirmed	To be confirmed				N/A
3	Procurement Cards	No Assurance	1	1	6	2	10
4	Cash and Card Income	Limited	0	2	6	4	12
5	Housing Benefit Overpayments	Moderate	0	0	5	1	6
6	Festival and Charter Markets	Moderate	0	1	4	2	7
7	Appraisals	Moderate	0	1	2	3	6
8	Social Housing Rent Setting	Substantial	0	0	2	1	3
9	Air Quality Duty	Substantial	0	0	0	4	4

	Review	Assurance Opinion	Recommendations Raised				
			Critical	High	Medium	Low	Total
10	Homelessness	Limited	0	2	3	2	7
11	Reactive Management	Limited	0	4	5	0	9
12	Climate Change	Substantial	0	0	4	1	5
	TOTAL		1	12	39	21	73

We will continue to follow up progress against all recommendations as part of the 2025/26 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.

Advisory work on the Eden Project funding claims

Advisory work on the Mainway Housing Project Governance

Review and Chief Internal Auditor Declaration of Heritage Action Zone Funding April 2020 to March 2024.

Advisory work and delivering training sessions on Risk Management.

Anti Fraud work at the Council

**CONTRIBUTION TO GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL ENHANCEMENTS:** *Additional areas where MIAA have provided added value contributions.*

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

Specific audit review of third party assurances to the Council (e.g. Preston City Council).

Effective utilisation of internal audit including in year communication, requests for changes to the audit plan in respect of Buildings Statutory Compliance, Energy Costs, Food Standards and Community Engagement which were replaced with Cash & Card Income, Procurement Cards and Housing Standards Rent Review.

To keep our clients informed on emerging governance and wider policy developments we ran 10 events in 24/25 as part of our North West Masterclass Collaboration. Each event was accompanied by an event summary published on our website. We also issued a Conflicts of Interest Checklist for Local Authorities to support organisations in assessing their arrangements for managing conflicts of interest.

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.

Continued involvement and representation on Local Bodies including the Lancashire Local Government Head of Internal Audit Group and the Lancashire Local Government Information Technology Group.

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## 5 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:

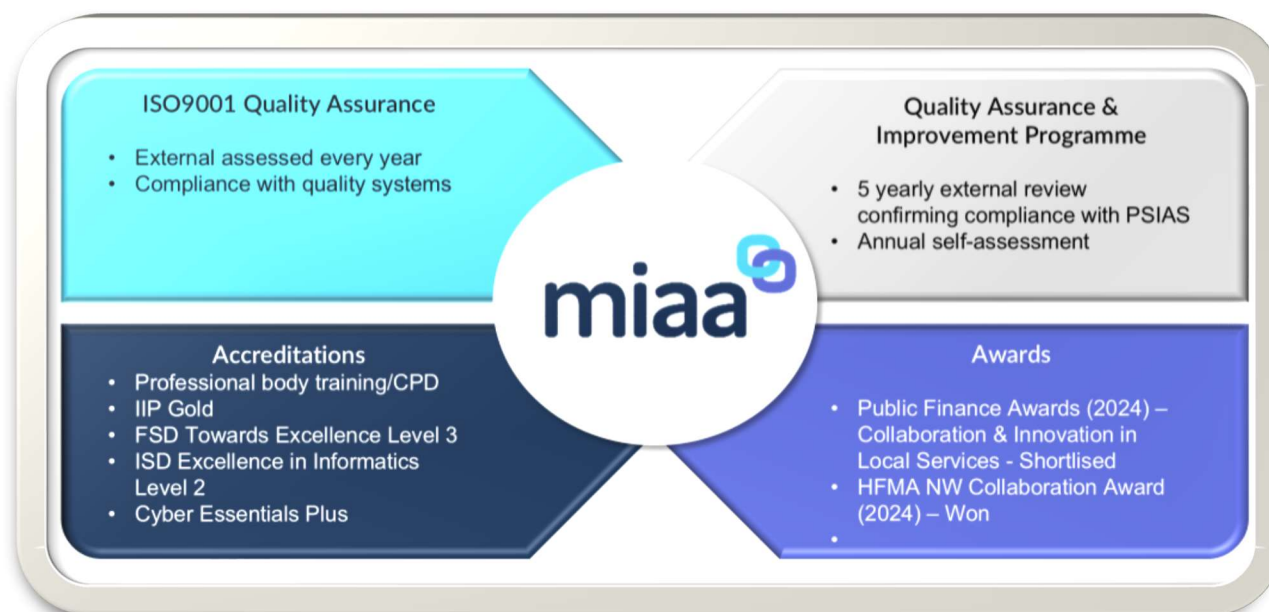
- Wider partnership/ collaborative working and engagement across the Lancashire Footprint (e.g. Lancashire Resilience Forum).
- Continued establishment and delivery of cross-organisation arrangements for the Better Care Fund and other pooled budgets development (e.g. Lancashire County Council)
- Impact 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).
- Council/Service leadership, including any significant changes to the Council and 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 City 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.

## 6 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 PSIAS, 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.

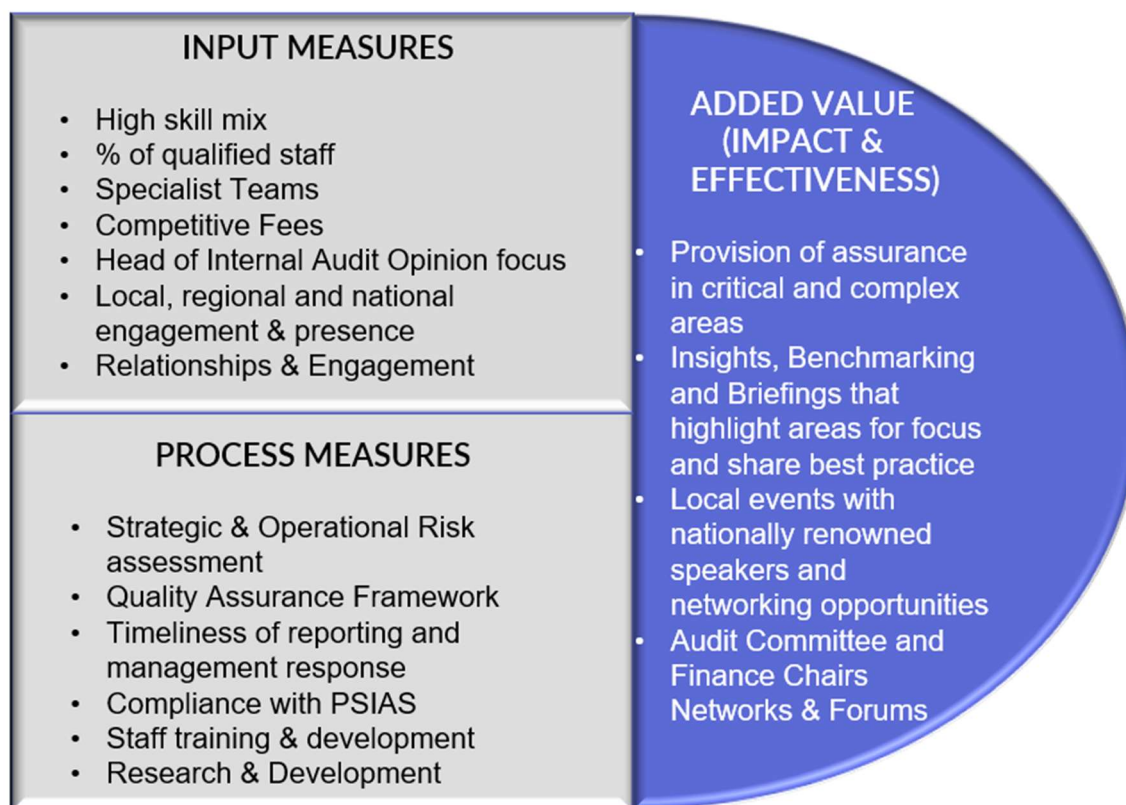




## Service delivery and outcome measures

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 infographic on this page 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.



**Louise Cobain**

Engagement Lead

Tel: 07795 564916

Email: [Louise.Cobain@miaa.nhs.uk](mailto:Louise.Cobain@miaa.nhs.uk)

**Fiona Hill**

Engagement Manager

Tel: 07825 592842

Email: [Fiona.Hill@miaa.nhs.uk](mailto:Fiona.Hill@miaa.nhs.uk)