
INTERNAL AUDIT QUARTERLY UPDATE

1.0 Summary of Progress against the 2018/19 plan.

Progress against the plan to date is satisfactory with 52% of audits commenced or completed, falling in the range between the positions reported in September 2017 and January 2018 of 38% and 66% respectively.

AUDIT PLAN PROGRESS

Title	Position
General Data Protection Regulations	Work in progress
Contract and Procurement	Work in progress
Off Street Parking	Work in progress
Main Accounting	Work not commenced
Treasury Management	Work not commenced
Payroll	Work in progress
Property Management	Work not commenced
Service Now	Work not commenced
Home Care Link	Work completed
Business Rates	Work in progress
Sustainable Organisational Review	Work not commenced
Anti-fraud review	Work completed
Insurance	Work in progress
Risk Management	Work not commenced
Sheltered housing	Work not commenced
Housing Rents	Work not commenced
Performance indicators	Work in progress
ICT	Work not commenced
Benefits	Work not commenced
Creditors	Work in progress
Debtors	Work in progress
Cashiers - Income Management	Work not commenced
Council Tax	Work in progress
Right to Buy Sales	Work in progress
Caretaking	Work in progress
Homefinder	Work not commenced
Commercial waste	Work not commenced
Civic bulky collections	Work not commenced
National Fraud Initiative	Work in progress
Annual Governance Statement	Work completed
Money Laundering Reporting Officer	Work not commenced
Summary	
Work complete	3
Work in progress	13
Work not commenced	15
Total	31

2.0 Assurance rating system

- 2.1 This report records the levels of assurance provided by Internal Audit's work. The following categories are used to record the level of assurance.

Full assurance: there is a sound system of internal control designed to secure objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control in place designed to secure objectives and controls are generally being applied consistently. Some weaknesses in the design or operation of the controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in design or inconsistent application of controls put the achievement of objectives at risk.

No assurance: weak controls or significant non-compliance with controls could result (or have resulted) in failure to achieve objectives.

- 2.2 No system of internal control can eliminate every possible risk and increasing the level of control in a system frequently increases costs. Balancing risk appropriately against the costs of control is management's responsibility.
- 2.3 Internal Audit's role is to evaluate and improve the effectiveness of risk management and control processes.
- 2.4 It is important to recognise that the scope of the work in each area examined defines the limits of the assurance which can be provided and to give context to the assurance provided work is summarised in the reports set out below.

3.0 Assurance reports:

3.1 Disabled Facilities Grants

Disabled Facilities Grants are administered by the Council's Homelessness and Private Sector Housing Team with the Lancashire County Council (LCC) Occupational Therapy team being responsible for assessing each applicant's requirements. A pilot scheme has been introduced to try and improve the speed of delivery of assessments in order that they are referred to the Council to access grant funded adaptations in a timely manner.

3.1.1 Objectives

To examine the operation of the scheme generally to ensure operational risks in the application process are adequately addressed. To compare the operation of the scheme pre and post pilot initiative in order to assess whether the pilot scheme is increasing health benefits to residents. To determine if maximum advantage is obtained from the external funding available for grants, and to assess the associated financial implications for the Council.

3.1.2 Observations

Review and testing found that there were no significant issues with the administration of the scheme by the Council.

However the Council is reliant on referrals from LCC and there are concerns that the delays in this process mean that the available external funding is not being used as promptly as is possible.

Despite the introduction of the pilot scheme and discussions with LCC, referrals are currently insufficient to achieve maximum take up of external funding which is beyond the Council's control. The usefulness of the pilot scheme cannot be measured accurately without the release of further information from LCC, for example in terms of the number of applicants awaiting assessment.

3.1.3 Assurance

This Internal Audit work provides **substantial assurance** that appropriate controls are in place on the operation of areas of the scheme within the Council's control.

However only **limited assurance** can be given to the effectiveness of the overall scheme in securing all adaptations required in a timely manner. An action has been agreed to escalate the issues identified, which are outside of this authority's immediate control, through channels of communication with LCC.

3.2 E-tendering system

An e-tendering system has been implemented for contracts and this was the first time that audit had undertaken a formal review of this system.

3.2.1 Objectives

To review the operation of the recently implemented e-tendering system.

3.2.2 Observations

The review of the system concluded:

- that there is an adequate audit trail for activity carried out through the system.
- that it incorporates adequate control on user activity subject to officers being granted appropriate access to enforce segregation of duties.

During implementation, controls have been retained centrally in the procurement team. While this was appropriate in the early stages while expertise in operating the system was gained this tight control has

temporarily restricted the functionality available to end users and hence the overall efficiency of the system.

There is now an opportunity to review the facilities offered by the system and access the efficiency advantages it offers while incorporating appropriate controls on the tendering process through a carefully structured approach.

The audit recommended that the procurement team now review the control framework to realign it where practical with the authority and responsibility of officers under the Scheme of Delegation so that efficiency can be increased while still retaining adequate control. This area will be reviewed again once this further work has been completed.

3.2.3 Assurance

This Internal Audit work provides **Substantial assurance** that appropriate controls are in place on tenders processed through the E-tendering system.

3.3 Main Accounting System Controls

The main accounting system comprises of the Civica Financials system which is an integrated system that consists of the creditors and debtors systems in addition to the general ledger, which supports the Council's financial reporting requirements.

3.3.1 Objectives

To review authorised users and their system privileges for the Civica Financials system, ensuring that the user list is up to date and that appropriate segregation of duties are in place in relation to the main system functions.

To confirm journals are supported by adequate narrative description, relevant accounting codes and that systems incorporate an adequate audit trail back to source documentation.

To confirm that bank reconciliations, debtor reconciliations and creditor reconciliations are undertaken regularly and are in balance.

3.3.2 Observations

The list of system users that was reviewed was up to date and there were adequate segregation of duties in place.

Bank, creditor and debtor reconciliations are being carried out on a regular basis and arrangements were found to be working effectively. A recommendation was made that the bank reconciliation should be subject to review and sign off by a second member of staff to improve the internal controls that operate in this area.

Samples of transactions were reviewed to ensure that they were being processed in line with agreed practices and no significant issues were identified.

3.3.3 Assurance

This Internal Audit work provides **substantial assurance** that the internal controls that are in place on the main accounting system are adequate. An action point was agreed that bank reconciliations should be independently reviewed and certified as being accurate.

4.0 **Other matters of note.**

4.1 Update on the Management of Electronic Records

Background:

The management of electronic records was identified as a significant governance issue for the Council in its 2016-17 Annual Governance Statement. A report was considered at Council in July 2017 summarising the proposed actions to address the issue, which were agreed. An action plan is in place and being implemented to improve governance arrangements to ensure continuing compliance with the relevant regulatory requirements and good practice, including adherence to the Corporate Retention and Disposal Schedule.

In June 2017 this Committee resolved that a report on Electronic Records be submitted to a future meeting. The 2017-18 Annual Governance Statement noted that the Council is continuing to improve and manage its electronic records and is keeping the position under review and monitoring progress through reports to this Committee. As has been noted previously by the Committee this matter will continue to be reported in summary form in Internal Audit updates until such time as the governance issues are resolved.

Current position:

- New data storage architecture for user created files generated across the Council's ICT network has been agreed in principle by WLBC officers and developed in test mode with the Council's ICT contractor
- Revised governance arrangements for data storage and maintenance of user access permissions have been agreed in principle by WLBC officers and relevant processes developed in test mode with the Council's ICT contractor.

(The proposed governance arrangements for the new structure and the arrangements for migration of data to the new storage architecture are designed to ensure council wide adherence to new corporate standards for data storage which will enhance control, increase efficiency and secure a reduction in the volume of data held.)

- BTLS are now implementing in a test area (Property Services) the functional specification to enable implementation of the technical aspects of the proposed solution.
- The scope of WLBC's review project has been widened to encompass the Council's governance arrangements for the use of email.
- Monitoring of the key risks associated with the project will continue through the Council's regular risk assessment process.
- There has been significant improvement in regulation of storage through the Council associated work on the introduction of the Data Protection Act 2018 and the GDPR.
- Implementing these changes requires review and management of the data by WLBC staff

Following the successful completion of testing it is proposed the template solution is rolled out to other Services in sequence. Preparatory work to allow this has been undertaken in accordance with the action plan referred to above.

4.2 Update in relation to Property Services engagement of a contractor.

A report was brought to the March meeting of this Committee summarising issues identified during audit examination of Property Services' arrangements for the engagement of a contractor and the management of the subsequent contract. Members requested to be kept up to date with progress against the actions planned to address the issues identified.

An update was provided at the July meeting of this Committee that identified that 5 of the 8 action points had been completed. A further 2 action points have now been completed (as set out in the plan at the end of this report), and the outstanding item relates to non-compliance with Document Retention requirements, which is being addressed through the Management of Electronic Records initiative as set out above.

Consequently an effective framework for internal control has now been put in place, and these matters have been discussed with the Director of Housing and Inclusion to ensure that there is a clear management commitment to preventing these issues reoccurring.

It is proposed that a further audit of Property Services will take place in a few months' time to verify that the controls are operating effectively and have been embedded into management processes and practices.

5.0 Conclusion

- 5.1 The 2018/19 Internal Audit Plan is designed to fulfil the Council's duty under the Accounts and Audit Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards. The external review of Internal Audit's work concluded that it generally conforms with the Public Sector Internal Auditing Standards. Good progress is being made in delivering the 2018/19 plan, which is expected to be substantially complete by the financial year end.

Property Services Contractor Engagement Action Plan

<u>Ref</u>	<u>Issue</u>	<u>Action</u>	<u>Progress</u>
2.	Failure to comply with Contracts Procedure Rules and Financial Regulations and to record transactions adequately.	Non-compliance cannot be corrected retrospectively. Further training will be provided for staff in property services on the requirements of Contract Procedure Rules, Financial Regulations and in relation to transaction processing to clarify requirements for clearing invoices and to ensure that staff understand the conditions for exceptions to established creditor payment procedures.	COMPLETE Training and staff briefings have been provided to relevant staff, and procedures and practices have been reviewed and updated. Induction material is also being updated to ensure that there is clear guidance in place for new staff.
4.	Absence of a signed agreement governing the arrangement.	Non-compliance cannot be corrected retrospectively. Internal Audit will carry out a review comparing property services expenditure over the threshold at which a contract is required to agreements held by legal services to evidence levels of compliance in other contracts.	COMPLETE This review has now been completed. The review considered historical transactions from 2017 and identified that controls and processes in this area were inadequate and that there were numerous examples of contracts not being held in legal services and / or not being contained on the contracts register. An action plan has been agreed with Property Service to address these issues
5.	Non-compliance with Council's Document retention requirements.	A corporate programme of review and cataloguing of records is in progress. It has been agreed that Property Services will be included early in the programme to ensure appropriate document retention criteria are developed and implemented.	ONGOING See Update on the Management of Electronic Records above