



INTERNAL AUDIT SERVICE ANNUAL REPORT 2018-2019

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Internal Audit Manager
West Lancashire Borough Council
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1. Executive Summary

- 1.1 The Internal Audit Manager is obliged, under the Public Sector Internal Audit Standards (PSIAS), to provide an annual report summarising the work undertaken by internal audit during the financial year just closed, and to provide an overall opinion on West Lancashire Borough Council's internal control environment.
- 1.2 In respect of 2018/19, 23 work streams were completed to draft / final report stage. Of the 13 work streams that are at final report stage, eight recorded an audit assurance opinion and a further five non assurance audits, which have been taken into account, had no significant issues identified. Ten work streams are currently at draft report stage. Work on a further four work streams has commenced.

Details of the eight work streams with an assurance opinion can be summarised as:

Assurance Opinion	Assessment of Internal Control	Number
Full Assurance	There is a sound system of internal control designed to secure objectives and controls are being consistently applied.	0
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 weakness in the design or operation of the controls put the achievement of particular objectives at risk.	7
Limited Assurance	Weaknesses in design or inconsistent application of controls put the achievement of objectives at risk.	1
No Assurance	Weak controls or significant non-compliance with controls could result (or have resulted) in failure to achieve objectives.	0

- 1.3 Based upon the work undertaken by Internal Audit in respect of 2018/19, the opinion of the Internal Audit Manager on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control is **Satisfactory**.

2. Introduction

- 2.1 In accordance with the Accounts and Audit Regulations 2015, the Council must ensure that it provides adequate and effective internal audit arrangements in respect of its accounting records and systems of internal control, and that it conducts an annual review of the effectiveness of these. In addition, these arrangements must be delivered in accordance with the Public Sector Internal Audit Standards (PSIAS), revised in January 2017, and Local Government Application Notes (LGAN), which came into effect on 1 April 2013 and 1 February 2019.
- 2.2 The work carried out by the Internal Audit Service involves reviewing and reporting on the control environment established by management to:
- Determine and monitor the achievement of the Council's objectives
 - Identify, assess and appropriately manage the risks to achieving the Council's objectives
 - Facilitate policy and decision making
 - Ensure economical, effective and efficient use of resources
 - Ensure compliance with established policies, procedures, laws and regulations
 - Safeguard the Authority's assets and special interests.
- 2.3 It is a requirement of the PSIAS that "the Head of Internal Audit provides an annual report to those charged with governance, which should include an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control".
- 2.4 The work streams set out in the Internal Audit Plan 2018/19, approved by this committee on 28th March 2018 are a primary source of assurance upon which the Internal Audit Manager's opinion is based.
- 2.5 In arriving at this opinion, this report sets out:
- A summary of the Internal Audit work undertaken during 2018/19;
 - A summary of the developments within Internal Audit during the year;
 - The Internal Audit Managers opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in 2018/19;

3. Internal Audit Activity 2018/19

- 3.1 The Internal Audit Service has not had an Internal Audit Manager in post for seven months of the current financial year, however, a new Internal Audit Manager was appointed in March 2019. The Internal Audit Service now has a full complement of 3.6 FTE staff.
- 3.2 The 2018/19 Internal Audit Plan was compiled by the previous Internal Audit Manager using a risk based approach taking into account the Council's objectives and considering known local and national influences on risks to their achievement. It was approved by this committee on 28th March 2018.
- 3.3 The 2018/19 Internal Audit Plan set out 31 work streams. An additional audit review was included which was initially planned to be undertaken during 2017/18 but deferred until 2018/19, resulting in 32 work streams in total for the year. At the request of service areas five audit reviews have been delayed and will be undertaken during 2019/20, leaving 27 work stream for 2018/19.
- 3.4 Performance against the plan, summaries of internal audit activity and the level of assurance it provides are reported to this committee on a quarterly basis.
- 3.5 Sufficient audit coverage has been achieved during 2018/19 to enable me to provide an opinion on the control environment.
- 3.6 Assurance work carried out during the year has confirmed that in the main the Council has appropriate controls in place to manage significant risks in its operations. This is demonstrated by audit reviews that were concluded with a substantial assurance opinion. In the review which has a limited assurance opinion, Internal Audit continues to work closely with the department to ensure that recommendations are implemented as per agreed timescales and a follow up audit review will be undertaken during 2019/20.
- 3.7 Non-assurance work is activity undertaken by internal audit and not primarily designed to provide assurance. An example is the National Fraud Initiative which the Council is required to participate in. Such work may still provide useful evidence of the effectiveness of controls in operation and work completed in these areas during the year did not disclose any evidence of significant areas of weakness in controls.
- 3.8 In addition to planned activity, internal audit have a role in investigation of potential fraud and irregularity, responding to items referred to it in accordance with established procedures. No referrals during the year disclosed evidence of significant areas of weakness in controls.

4 Internal Audit Developments

- 4.1 The Internal Audit Team have reviewed and developed new working practices, including new formats of working papers which will promote efficiencies and a new format Internal Audit Report.
- 4.2 All Internal Audit reviews will be subject to a follow up review no later than six months following the issue of the final Internal Audit Report. This is to be implemented immediately.
- 4.3 A customer satisfaction survey is in development and this will be provided to each auditee once the final Internal Audit Report has been issued.
- 4.4 A suite of Internal Audit Service Performance Indicators have been developed and will be introduced from 1st June 2019. The proposed Performance Indicators and targets are typical to Local Authorities and are detailed below for information. Results from these Performance Indicators will be reported to this committee as part of the quarterly progress report.

Performance Indicators:

Performance Indicator	Target
1. Completion of the audit plan	90% of planned audits completed to draft report stage by end of plan review period (31 May 2020)
2. % recommendations confirmed fully implemented at time of formal follow up	Priority 1 – 100% Priority 2 – 80% Priority 3 – 75%
3. Timely production of draft report	80% of draft reports issued within 4 weeks of end of fieldwork
4. Timely agreement and issue of the final report	80% of final reports (including agreed management action plan) issued within 5 weeks of draft report
5. Customer satisfaction	Through key question customer satisfaction surveys – target 90% satisfaction of Very Good, Good or Average rating.

5 Annual Governance Statement

- 5.1 Internal Audit work supports the production of the Annual Governance Statement. There were no issues arising from Internal Audit's work in 2018/19 which are deemed Significant Governance Issues which would be reportable in the Annual Governance Statement.

6 Internal Audit Manager's Overall Opinion

- 6.1 Based upon the work undertaken by Internal Audit in respect of 2018/19, the opinion of the Internal Audit Manager on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control is that the controls in the majority of systems and procedures continue to operate **satisfactorily**.
- 6.2 Of the systems and procedures reviewed, one audit review was found to provide limited assurance and an action plan detailing findings and recommendations has been agreed with management. Follow up audit work will be carried out to ensure that adequate progress to implement audit recommendations has been made.
- 6.3 No system of control can give absolute assurance against material misstatement or loss and, accordingly, this opinion does not provide such an absolute assurance.