



# **INTERNAL AUDIT SERVICE ANNUAL REPORT 2019-2020**

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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 2019/20, 21 assurance audits were completed, 15 of which recorded an audit opinion and a further 6 with no opinion which have been taken into account. The overall audit opinions given in the assurance audit reports can be summarised as:

Assurance Opinion	Assessment of Internal Control	Number
Substantial Assurance	<p>Level of Assurance = High</p> <p>The controls evaluated are well designed, appropriate in scope and applied consistently and effectively. Any issues identified are minor in nature and should not prevent objectives being achieved.</p> <p>There is a low risk of fraud, negligence, loss or damage to reputation.</p>	<b>5</b>
Moderate Assurance	<p>Level of Assurance = Medium</p> <p>The controls evaluated are generally well designed, appropriate in scope and applied in the main consistently and effectively, but some weaknesses have been identified that require management attention. These issues increase the risk that some objectives may not be fully achieved.</p> <p>There is a medium/low risk of fraud, negligence, loss or damage to reputation.</p>	<b>7</b>
Limited Assurance	<p>Level of Assurance = Low</p> <p>Some controls evaluated are generally well designed, appropriate in scope and applied consistently and effectively. However, issues of poor design, gaps in coverage or inconsistent or ineffective implementation have been identified that require immediate management attention. The issues if unresolved, mean that objectives may not be achieved.</p>	<b>1</b>

	There is a medium risk of fraud, negligence, loss or damage to reputation.	
No Assurance	<p>Level of Assurance = None</p> <p>Expected controls are absent, or where evaluated are flawed in design, scope or application leaving the system open to error or abuse. The auditor is unable to form a view as to whether objectives will be achieved.</p> <p>There is a high risk of fraud, negligence, loss or damage to reputation.</p>	<b>2</b>

1.3 Based upon the work undertaken by Internal Audit in respect of 2019/20, and the implications of the Covid-19 epidemic on the Councils internal control framework, 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 **moderate assurance**.

## **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 2019/20, approved by this committee on 28<sup>th</sup> May 2019 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 2019/20;
  - 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 2019/20.

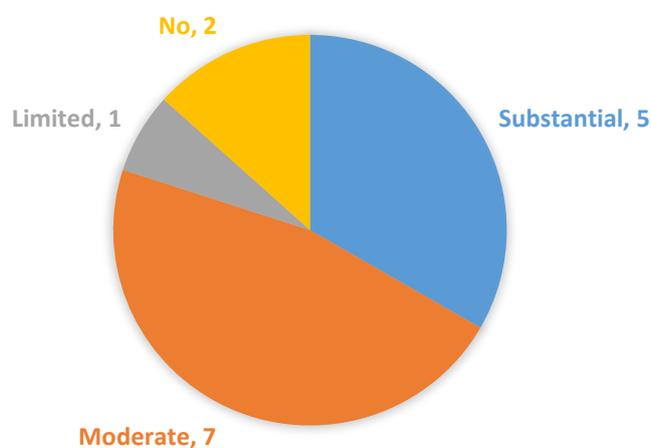
### **3. Internal Audit Activity 2019/20**

- 3.1 At the beginning of the audit year (1 June 2019) the Internal Audit Service had a full complement of 3.8 FTE staff. However, a proportion of this resource is used to undertake non-audit work for Payroll, Parish Council Grants and Precepts, and the Maintenance of the Council's authorisation list, therefore leaving staffing resources of 3.5 FTE. Whilst this appears to be a small difference it does equate to a loss of approximately 65 audit days per year and is accounted for in the annual audit planning process.
- 3.2 The internal audit staffing resource was further impacted as a result of the Covid-19 pandemic which saw the council's emergency plan and response invoked. The invocation of the emergency plan resulted in planned audit work being paused and Internal Audit staff were redeployed into critical services areas to assist as required. Audit staff undertook duties in Human Resources, Covid 19 Business Grants Team and Home Care Link. The Internal Audit Manager initially managed the redeployment of staff across the council to meet demand and then transferred to Lead the Critical Community Support Group.
- 3.3 During the initial period of the Covid-19 pandemic the council had to change many working practices to facilitate home working and social distancing measures. Internal Audit provided ad-hoc advice to management on some of the key changes to processes and procedures giving due regard to the impact these changes may have on the council's internal control framework. The team continue to provide support and advice when needed and remain mindful of the impact the pandemic has had on service areas and the need to do things differently.
- 3.4 The 2019/20 Internal Audit Plan was compiled by the Internal Audit Manager using a risk based approach, consulting with members of the Corporate Management Team and taking into account the Council's objectives considering known local and national influences on risks to their achievement. It was approved by this committee on 28<sup>th</sup> May 2019.
- 3.5 The 2019/20 Internal Audit Plan initially set out 32 work streams but reduced to 30 following changes to the organisation as part of SORP. All amendments to the 2019/20 Internal Audit Plan were referred to this committee for approval.
- 3.6 From the 30 audit reviews planned 25 have been completed, 21 to a final report issued or no final report required stage, a further three are in the draft report issued stage, and one is partially completed. Five audit reviews were not completed due to the impact of Covid 19 as outlined above and these will be carried forward into future audit years.

### Final Report issued with opinion

<b>Title</b>	<b>Opinion</b>
Property Services – Electric	Limited
GDPR	No
Stripe Payment Method	Moderate
Civic Bulky Collections	No
Enforcement Charges	Substantial
Land Charges	Moderate
Corporate Credit Card	Moderate
Benefits	Substantial
Debtors	Moderate
Council Tax	Moderate
Council Tax Support Scheme	Substantial
NDR	Moderate
Housing Rents Standard	Substantial
Housing Rents – Rents Sense	Substantial
Main Accounting	Moderate

### **AUDIT ASSURANCE SUMMARY**



Draft Report Issued – provisional opinion subject to change

Title	Opinion (Provisional)
Vehicle Maintenance Contract	Limited
Creditors	Moderate
Works After Sale of Council Houses	Limited
Development Company	Audit in progress

Audits deferred

Title	Opinion (Provisional)
Payroll	Suspended until 2020/21
Performance Indicators	Suspended
Treasury Management	Suspended until 2020/21
Service Now - Customer Relationship Management	Suspended
Asbestos	Suspended until 2020/21

- 3.5 Follow up reviews were introduced during 2019/20 and resulted in three reviews being undertaken before audit work was paused. Two out of the three reviews undertaken resulted in the assurance opinion increasing. A further follow up is scheduled for September 2020 in respect of the Gas audit review.

Title	Original Opinion	Updated Opinion
Gas	Limited	Limited
Caretakers	Limited	Moderate
Home Care Link	Limited	Moderate

- 3.6 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. The impact of the Covid-19 pandemic and the redeployment of staff saw performance indicators suspended from Quarter 4 onwards. Despite the

impact of Covid-19 on the service and the pausing of audit work, the team had already made good progress which saw 83% of the audit plan completed and ensured that sufficient audit coverage had been achieved during 2019/20 to enable me to provide an opinion on the control environment. Additionally, feedback from auditees was also positive and resulted in 100% of ratings given being very good, good or average.

- 3.7 Non-assurance work is activity undertaken by internal audit 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 continued to review and develop new working practices, this will carry on throughout 2020/21 as the team meets the challenges of remote auditing and the increase in working from home.
- 4.2 All Internal Audit reviews are subject to a follow up review no later than 6 months following the issue of the final Internal Audit Report. This has been a successful introduction and this will continue into 2020/21.
- 4.3 This year's Internal Audit Managers opinion is defined using the following audit opinion scale and definitions. This will give members greater clarity on where the organisation is in terms of governance, risk management and internal control.

<b>Opinion</b>	<b>Definition</b>
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the

	achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives in the areas audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and/or control is inadequate to effectively manage risks to the achievement of objectives in the areas audited.

- 4.4 From 17<sup>th</sup> August 2020 a report on outstanding audit recommendations is to be presented to the Council's Corporate Management Team (CMT) on a monthly basis. This will enable CMT to have visibility of recommendations being made and also monitor non implementation so that timely action can be taken.
- 4.5 The annual review of the Internal Audit Service continued compliance with the Public Sector Internal Audit Standards is in progress and will result in a refreshed Quality Assurance and Improvement Programme that will be reported to this committee during 2020/21.
- 4.6 The Internal Audit Service will be undertaking planned work during 2020/21 that will assess the impact of the Covid-19 pandemic has had on the internal control framework, in particular on the key financial systems. Due regard will also be given to the new work streams, such as Business Grants, payment holidays and the humanitarian hub brought about by the Governments response to Covid-19 and the need for Local Authorities to provide assistance to residents and businesses.

## 5 Annual Governance Statement

- 5.1 Internal Audit work supports the production of the Annual Governance Statement. The main significant governance issues arising from internal audits work includes:
- the impact of Covid-19 on the council and the remaining threats;
  - Compliance with GDPR and the no assurance opinion provided;

- Challenging financial situation due to the reduction of government funding and the impact of Covid-19.

## **6 Internal Audit Manager's Overall Opinion**

- 6.1 Based upon the work undertaken by Internal Audit in respect of 2019/20, and the implications of the Covid-19 epidemic on the Councils internal control framework, the opinion of the Internal Audit Manager is that ***moderate assurance*** can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and internal control.
- 6.2 Of the systems and procedures reviewed, 1 audit review was found to provide limited assurance and 2 audit reviews were found to provide no assurance. Action plans detailing findings and recommendation have been agreed with management and Internal Audit will work closely with managers to ensure that recommendations are implemented. Follow up audit work will be carried out to ensure that adequate progress to implement audit recommendations has been made, and updates on progress will be made to the Audit and Governance Committee.
- 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.