



Internal Audit Service
Annual Report and Opinion 2020/21

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Executive Summary

The Internal Audit Manager is obliged, under 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 frameworks of governance, risk management and control. This opinion and other supporting information will inform the annual governance statement that the Council will publish within its statement of accounts for the year.

In respect of 2020/21, 14 assurance audits were completed, 13 of which recorded an audit opinion and a further one with no opinion which has 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>	0
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>	10
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> <p>There is a medium risk of fraud, negligence, loss or damage to reputation.</p>	3
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>	0

- 1.3 Based upon the work undertaken by Internal Audit in respect of 2020/21, and the implications of the Covid-19 epidemic on the Council's 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**.

1. Introduction

- 1.1 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.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) 2017 define internal audit as:
"An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 1.3 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.
- 1.4 The work streams set out in the Internal Audit Plan 2020/21, approved by this committee on 28th July 2020 are a primary source of assurance upon which the Internal Audit Manager's opinion is based. The plan presented and approved by Audit and Governance Committee Members was a nine month plan running from 1st July 2020 to 31st March 2021 due to the limited staff resources, in that, the Internal Audit Manager and Internal Auditors were redeployed to critical service areas to assist with the Covid-19 response. The Internal Audit Manager and one member of the team continued to support the Covid-19 response past July 2020.
- 1.5 Due to unprecedented circumstances the Internal Audit Plan 2020-21 was ambitious and fluid and it was closely monitored and amended to ensure that there would be adequate work undertaken to enable an annual opinion to be concluded.
- 1.6 In arriving at this opinion, this report sets out:
- A summary of the Internal Audit work undertaken during 2020/21;
 - A summary of the developments within Internal Audit during the year;
 - The Internal Audit Managers key observations to support the opinion;
 - The Internal Audit Managers opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in 2020/21.

2. Internal Audit Work Undertaken During 2020/21

- 2.1 At the beginning of the financial year 2020/21 all members of the Internal Audit Service were working in other service areas to assist with the Covid-19 response. Internal Auditors undertook work in Human Resources, Home Care Link, contacting extremely vulnerable people to assess any assistance required, and processing Covid-19 Business Grants. The Internal Audit Manager spent time managing the redeployment of staff to critical areas, acting as Lead for Critical Community Support and then leading on the Council's Test and Trace response. The Internal Audit Service was back to a full complement of 3.8 FTE staff on 21st September 2020.
- 2.2 The 2020/21 Internal Audit Annual 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 external influences on risks to their achievement. As previously mentioned in 1.5 above, it was for a period of 9 months from 1st July 2020 to 31st March 2021.
- 2.3 The 2020/21 plan initially set out 23 work streams but reduced to 17. All amendments to the Internal Audit Plan have been reported to this committee during the year. The Audits not undertaken during 2020/21 have been reassessed and where appropriate transferred to the 2021/22 Internal Audit Annual Plan.
- 2.4 During the year, 14 audit reviews have been completed to report stage and a further three audit reviews are nearing completion. We had an ambitious nine month plan in place for the year which was routinely monitored and updated as required. The assurance opinions Internal Audit provided on the audit reviews carried out in the year are as follows:

Final Reports Issues with an Opinion

Audit Review	Stage of Audit	Assurance Opinion
Key Control - Vehicle and Plant	Final Report Issued	Limited
Fuel Management	Final Report Issued	Limited
Disabled Facilities Grants	Final Report Issued	Moderate
Creditors	Final Report Issued	Moderate
Council Tax	Final Report Issued	Moderate
Housing Benefits and CTRS	Final Report Issued	Moderate
C-19 Business Grants – Post Event Assurance	Report to BEIS	N/A

Draft Report Issued – Provisional Opinion (may be subject to change)

Audit Review	Stage of Audit	Assurance Opinion
Waste Transfer Site – Admin & Storage	Draft Report Issued	Moderate
Service Charges - Leaseholders	Draft Report Issued	Limited
Tawd Valley Developments	Pre-Draft Report	Moderate
Debtors	Draft Report Issued	Moderate
Business Rates	Draft Report Issued	Moderate
Rents	Draft Report	Moderate
Corporate Governance	Pre-Draft Report Issued	Moderate

Audits with no opinion or still in progress

Audit Review	Stage of Audit	Assurance Opinion
Section 106/ CiL Monies	Fieldwork	
Payroll	Fieldwork	
Main Accounting	Fieldwork	

Audits Cancelled or deferred until 2021/22

Audit Review	Position
Playground Development	Cancelled
Parks & Play Grounds	Cancelled
Estates – Rents Accounts and Utilities	Cancelled
Housing D100 Process	Will be reviewed 21/22 as part of Creditors Audit
Treasury Management	Has commenced as part of the 2021/22 Internal Audit Plan
Use of Images	Cancelled

- 2.5 Internal Auditors continued to work with colleagues to ensure that audit recommendations had been or were being implemented in accordance with the agreed Management Action Plans (MAP). Implementation of recommendations have been delayed in a number of service areas due to staff vacancies and the redeployment of officers into critical service areas. Internal Audit have acknowledged that the last 12 months have been difficult for service areas, however, new arrangements for the monitoring and reporting of non-implementation to CMT and the Audit and Governance Committee have now been introduced. This coupled with the introduction of the new Internal Audit Recommendation Escalation Procedure will further strengthen the process for the implementation of recommendations.

- 2.6 The Internal Audit Service has been involved with a number council projects during the year including, Effective Data Management, Revenues and Benefits' Return to WLBC and Business Support. When working on projects it is the Internal Auditors role to act as a critical friend and advise on internal controls, risk management and governance.

Counter Fraud Work and Investigations

- 2.7 A review of the Councils' counter fraud arrangements was delayed due to staffing resources and will now be undertaken by the Internal Audit Manager during 2021/22 using CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption and the Fighting Fraud and Corruption Locally – A Strategy for the 2020's. Details of findings and any action plan produced will be reported to CMT and Audit and Governance Committee.
- 2.8 The Internal Audit Manager acts as the Councils Key Contact for the National Fraud Initiative (NFI). During the year the Internal Audit Manager worked with colleagues across the Council to collate data sets for upload into the Cabinet Offices NFI portal. This will allow effective data matching using data from other local authorities and public sector organisations, e.g., Department for Work and Pensions, National Health Service, to be undertaken. Results have been received and investigations into the matches with a high probability of fraud will be investigated in the first instance during 2021/22.
- 2.9 In addition to planned activity, Internal Audit have a role in the investigation of fraud and irregularity, responding to items referred to it in accordance with established procedures. No referrals for investigation were received by Internal Audit during the year.

3. Internal Audit Developments

- 3.1 The Internal Audit Service is always looking to improve and be as efficient as possible whilst providing a first class service and adding value.
- 3.2 During the year the Internal Audit Service undertook a review of its ongoing compliance with PSIAS. The review identified areas where improvement is required and we have produced an action plan to ensure that these improvements are implemented within strict timescales. Further information is detailed in Section 5 of this report.
- 3.3 All members of the Internal Audit Service have been working from home since March 2020 and have had to adapt to a new way of working and undertaking Internal Audit Reviews. There have been very few face to face meetings due to Covid-19 restrictions and meetings are now conducted remotely over skype. Internal Auditors have had to use other methods for collecting and analysing evidence which has worked well with very few issues being encountered.
- 3.4 An annual review of Internal Audit working papers and reports has been undertaken and some amendments to the format made so that we comply with PSIAS but also ensure that we are working as efficiently as possible.
- 3.5 Whilst there has always been an escalation process in place for officers who do not implement recommendations made by Internal Audit, there was no formal document to refer to. The Internal Audit Manager has now produced an Internal Audit Service Recommendation Escalation Procedure which will be shared with every auditee, be linked to audit documentation for ease of reference and act as a reminder, and will be available on the new Internal Audit intranet page currently being developed.
- 3.6 The Internal Audit Service will continue to review its practices to ensure that it stays current and continue to add value to the Council.

4. Internal Audit Manager's Key Observations

Covid-19

- 4.1 This year has seen the Council responding to the Covid-19 pandemic where, in a very short space of time, a high volume of staff were required to work from home. This required the procurement and deployment of equipment to facilitate new ways of working. The Council is now moving to its New Way of Working with all staff being allocated a category of workstyle to suit their role.
- 4.2 There was a requirement to quickly change the way in which officers undertook routine procurement including the payment of invoices to ensure that our suppliers were paid on time without undue delays and this could only be achieved by the relaxation of some controls for twelve months. Internal Audit work will take place during 2021/22 to assess any impact of the relaxation of such controls. The process prior to Covid-19 has been reintroduced.
- 4.3 The Council's response to the pandemic resulted in staff being redeployed into critical areas to provide support and ongoing services to our citizens and businesses. New services were introduced at short notice following government announcements, however, the Council was able to continue to provide its key critical services throughout the year.

Corporate Governance

- 4.4 The Internal Audit Service have undertaken a full review of the Council's compliance with the CIPFA – Delivering Good Governance in Local Government Framework – 2016 Edition. This has resulted in an action plan being produced which will be used to ensure that areas of improvement are addressed on a timely basis. A new Corporate Governance process of review has been introduced by Internal Audit which will ensure that there is regular monitoring of the action plan and progress reporting to the Council's Corporate Management Team (CMT).
- 4.5 New style Governance Assurance Statements (GAS) have been introduced to give CMT members the opportunity to demonstrate their compliance with Corporate Governance Principles and also if required report any issues that they perceive to be a significant governance issue.
- 4.6 The planned assurance work undertaken by Internal Audit will help to inform the production of the Annual Governance Statement which will be reported to the Audit & Governance Committee as part of the Council's financial statements for the year.

Risk Management

- 4.7 The Council has launched its new Risk Management Policy and Toolkit and staff and Members have received training by the Risk and Insurance Officer and a representative from the Council's Insurer. The launch of this new policy and toolkit will ensure that Risk Management is embedded throughout the Council. All Council risks are in the process of being uploaded on to the Pentana Risk system by Senior Managers and Heads of Service which will allow for routine monitoring, implementation of mitigations and reporting.

Information Governance

- 4.8 Information governance has continued to be a priority for the council and work has taken place to ensure that the Council becomes compliant with GDPR. The Effective Data Management Project Team was set up to address gaps in compliance and to implement Internal Audit Recommendations from the GDPR Audit review 2019/20. Further work is

required, but the Council has made good progress to implement recommendations and introduce new practices for data management.

Budget / Financial Position of the Council

- 4.9 The Council is facing financial challenges due to a number of reasons, including, not being able to achieve its income generation targets from SORP and the unprecedented demands on local authorities to provide additional services at short notice as a response to the Covid-19 pandemic. Additional requirements also included expenditure such as: PPE requirements, extra vehicles, new service implementation, and loss of income due to the closure of the market, car parks, introduction of payment holidays etc. Plans are currently being developed to ensure that the Council can present a balanced budget for 2022/23 and the impact on the Medium Term Financial Strategy is being monitored closely.

5. Quality Assurance and Improvement Programme

- 5.1 An internal self-assessment of the Internal Audit Services compliance with PSIAS has been undertaken during 2020/21 and an action plan produced. Work has been undertaken to address the actions from the self-assessment and the current status is as follows:

Section	Conforms	Partial	Not Conforming	Actions	Open Actions	Closed Actions
One	1	-	-	1	1	-
Two	-	2	-	7	3	4
Three	10	-	-	4	3	1
Four	5	-	-	2	-	2
Five	38	4	4	21	13	8
Six	47	9	6	16	11	5
Totals	101	15	10	51	31	20

External Assessment

- 5.2 An external assessment must be conducted at least every five years, in accordance with the PSIAS. Appointment of the External Assessor and scope of the external assessment must be approved by the Audit and Governance Committee. The last external assessment took place in February 2018 by CIPFA which confirmed that the Internal Audit Service "Generally Conforms" to Internal Professional Practice Framework, PSIAS and Local Government Application Note. The next external assessment is due for February 2023.

Internal Assessment

- 5.3 The Internal Audit Service have defined processes in place for conducting its Internal Audit Reviews including the use of standard documentation for audit briefs, working papers and reports.
- 5.4 The Internal Audit Manager reviews and signs off all Audit Briefs before they are provided to the auditee. Quality assurance is also undertaken by the Internal Audit Manager to ensure consistency, quality and compliance with the service's standard planning, fieldwork and reporting processes. Additionally, the Internal Audit Manager reviews all pre-draft, Draft and Final Reports before they are issued.
- 5.5 As part of the final report issuing process, a customer survey is issued and results maintained which forms part of one of the services key performance indicators.
- 5.6 The Internal Audit Manager meets with each Internal Auditor on a monthly basis for a one to one session and a team meeting is held on a weekly basis due to working remotely.

Internal Audit Performance

5.7 During 2020/21 the Internal Audit Manager suspended the Internal Audit Service Performance Indicators. These will be reintroduced in 2021/22 as follows:

Indicator	Target	Purpose
% Completion of the Internal Audit Annual Plan	90% of the audit plan completed by the end of the financial year, 31 st March 2022	This measures the extent to which the Internal Audit Plan agreed by Audit and Governance Committee is being delivered. The delivery of the Plan is vital in ensuring that an appropriate level of assurance is being provided across the Council's systems.
% audit recommendations accepted by management, analysed by Priority Level	Priority 1 = 100% Priority 2 = 95% Priority 3 = 90%	<p>Acceptance of audit recommendations by Management ensures that where improvements are required to the internal control environment, appropriate action will be taken to secure these enhancements.</p> <p>However, there can be occasions where recommendations are disputed. In these cases, there may be justifiable reasons for management not supporting the recommendation, e.g. compensating controls have been put in place.</p> <p>Conversely, management can take the decision to accept the risks identified, particularly if insufficient resources preclude action being taken.</p> <p>However, this will mean that there are vulnerabilities in systems of internal control, which are not being addressed and details of which must be recorded on Pentana.</p>
Timely agreement and issue of the final report	80% of final reports (including agreement and completion of the Management Action Plan) issued within 5 weeks of the draft report.	Ensures that Audit Reports are issued in a timely manner with any findings and recommendation being relevant.
Customer Satisfaction Feedback	95% of feedback is Very Good, Good or Average rating	Ensures that the service being provided by Internal Audit continues to add value. Any negative feedback will be treated constructively and help to improve the service as required.

6. Organisational Independence

- 6.1 Internal Audit operates within an organisational framework that preserves the independence and objectivity of the assurance function, and ensures that the Internal Audit Service is free from interference in determining the scope of internal auditing, performing work and communicating results. The Internal Audit Manager can confirm that that there has not been any impairments to the objectivity and independence of the team.
- 6.2 The framework also allows for the Internal Audit Manager direct access to and the freedom to report unedited, as deemed appropriate, to the Audit and Governance Committee, the Chief Operating Officer, Section 151 Officer and Senior Management.
- 6.3 Internal Audit has operational responsibilities for an element of the Payroll System and the Management of the Authorisations Matrix. As a consequence the Internal Auditors involved in these functions do not undertake any internal audit work in these areas to ensure that objectivity is not impaired. The same extends to the areas that Internal Auditors supported during redeployment as part of the councils Covid-19 response.

7. Overall Opinion for 2020/21

- 7.1 Based upon the work undertaken by Internal Audit in respect of 2020/21, and the implications of the Covid-19 epidemic on the Council's 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**. This means that there is a generally a 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 some council objectives.
- 7.2 In forming my opinion on the Council's internal control environment, risk management process and corporate governance, I have considered the work undertaken by the Internal Audit Service throughout the year, conversations with members of CMT and utilised documentation that has been provided to me throughout the year.
- 7.3 It should be noted that no system of control can give absolute assurance against material misstatement or loss and, accordingly, this opinion does not provide such an absolute assurance.

Definition of Internal Audit Manager Opinions

Opinion	Definition
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 Council objectives.
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 Council objectives.
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 Council objectives.
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 Council.