Internal Audit Service

Internal Audit – Progress Report

October 2021

Contents

1. Summary of Progress against Internal Audit Plan

Summary of Progress against the 2021/22 Annual plan.

Audit Review	Stage of Audit	Date Assurance Reported to A&G Committee
Assurance		
Ormskirk Market & Speciality Markets	Final Report Issued	26th October 2021
~~Use of Council Assets by Commercial Organisations~~	Cancelled	
Allotments	Final Report Issued	28th July 2021
Garden Waste Service	Audit Brief Issued	
Bulky Waste	Audit Brief Issued	
Property Services - Asbestos		
Voids		
Furnished Tenancies		
Housing Allocations		
Whistleblowing Policy	Final Report Issued	26th October 2021
Code of Conduct for Officers and Members	Draft Report Issued	
Procurement	Fieldwork	
Tawd Valley Developments	Draft Report Issued	
Business Grants Covid - 19 Post Payment Assurance	Complete	
Main Financial Systems		
Housing Benefits and CTRS		
Creditors – D100	Audit Brief Issued	
Debtors		
Council Tax		
Business Rates		
Payroll	Final Report Issued	26th October 2021
Rents		
Treasury Management	Final Report Issued	26th October 2021
Main Accounting	Final Report Issued	26th October 2021
Cross Cutting		
Business Continuity	Fieldwork	
Corporate Land Allocation budget responsibilities	Final report Issued	26th October 2021
Ground Rents and Wayleaves	Pre-Draft Report	
Corporate Governance	Final Report Issued	26th October 2021
Duplicate Payments *NEW*		
ICT Audit		
GDPR – NHS DSC Toolkit Submission Review	Completed	28th July 2021
Annual Reviews		
Public Sector Internal Audit Standards Review	Fieldwork	

1.1 For the period 1st April 2021 to 15th October 2021 progress against the plan for the financial year 2021/22 has been good with 53% of planned audit work either completed or in progress. Since the last report to the Audit and Governance

Committee in July 2021, six audit reviews for 2021/22 have been completed to final report issued stage. A further three are completed to pre-draft/draft report status and further details of these audit reviews will be provided to this committee in January 2022.

1.2   The Internal Audit Manager and one member of the Internal Audit Service continue to work on two consultancy reviews not originally planned for 2021/22. The work on these reviews will continue throughout quarter 3 of the financial year. Further details of these reviews will be reported to this committee in due course.

1.3   The Internal Audit Service continues to provide support to a number of Council key projects, including Effective Data Management and Business Support. Additional unplanned work continued to be undertaken during the period following individual requests from management and officers.

2.   Audit Opinions and Priorities for Recommendations

2.1   Assurance rating system

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following levels of assurance are provided following Internal Audit's work.

Substantial	Level of Assurance = High
	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.
	There is a low risk of fraud, negligence, loss or damage to reputation.
Moderate	Level of Assurance = Medium
	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.
	There is a medium/low risk of fraud, negligence, loss or damage to reputation.
Limited	Level of Assurance = Low
	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.
	There is a medium risk of fraud, negligence, loss or damage to reputation.
No	Level of Assurance = None
	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.
	There is a high risk of fraud, negligence, loss or damage to reputation.

2.2 Recommendation Priority Levels

In order to assist management in using our reports all recommendations made in all internal audit reports are given a priority level as set out in the table below:

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact of frequency presents risk to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

2.3 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.

2.4 Internal Audit's role is to evaluate and improve the effectiveness of risk management and control processes.

2.5 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 Section 3 below.

3. Assurance reports

Audit Year 2021/22

Details of the final reports relating to 2021/22, issued during the period 1st April 2021 to 15th October 2021 are as follows:

Final Reports Issued

Audit Title	Assurance Opinion	Recommendations		
		P1	P2	P3
Ormskirk Market & Speciality Markets	Limited	10	8	3
Whistleblowing Policy	Limited	1	13	3
Payroll	Moderate	0	16	17
Treasury Management	Moderate	3	5	1
Main Accounting	Moderate	0	2	5
Corporate Land Allocations Budget Responsibilities	Limited	7	14	2

3.1 Ormskirk Market and Speciality Markets (Limited)

3.1.1 The scope of this audit review was restricted to the following:

- Policies and Procedures,
- Verification and checks on stall holders,
- Income collection and debt recovery,
- Staffing,
- Recharges,
- Risk Management, including Covid 19 protocols.

3.1.2 Key Findings in relation to Ormskirk Market and Speciality Markets include:
- There are no policies or procedure in place for Market Management.
- Up to date licences are not in place for all stallholders.
- The waiting list for a market stall is out of date.
- The Council is not issuing licences to car boot sales, pop up markets, such as the Artisan and night market held in the West Lancashire area.
- Risk Assessments are not up to date.
- There is a limited WLBC staff presence on market days.

3.2 Whistleblowing Policy (Limited)

3.2.1 The scope of this audit review was restricted to following:

- A review of the current Whistleblowing code to ascertain whether it met the requirement of the Public Interest Disclosure Act 1998 and National Audit Office criteria,
- A review of the process in place to ensure that it is defined and easy to follow and gives the reader the confidence that their concerns will be treated seriously,
- A register is maintained of whistle blows with reports provided to the Audit and Governance Committee on an annual basis.

3.2.2 The Council had a Whistleblowing Code in place that was out of date and when compared to the National Audit Office criteria was found that it did not meet all the necessary requirements. Additionally, it was noted that a register of whistle blows was not maintained and an annual update to the Audit and Governance Committee was not undertaken.

3.2.3 The Legal and Democratic Services Manager (Monitoring Officer) has ensured that the recommendations from this audit review have been actioned and an updated Whistleblowing Policy, reviewed by Internal Audit, has been presented to Standards Committee on 21st September 2021. The Policy will be reported to this committee and then to Council in December 2021.

3.3 Payroll (Moderate)

3.3.1 The following key areas in relation to the Council's management of Payroll were reviewed by Internal Audit:

- Policies and Procedures,
- System Administration (e.g. access controls),
- Standing Data,
- New Starters, Variations and Leavers,
- Overtime Claims,
- Expenses & Allowances (e.g. travel, subsistence, telephone & car),
- Data Management and Security,
- Business Continuity,
- Reconciliation,
- Payments & Ad hoc payments,
- Risk Management,
- Agency Workers (Follow up from 18-19 review).

3.3.2 Systems and procedures in relation to Payroll reviewed by Internal Audit were found to be satisfactory, however the following key findings were identified:
- Policies are not regularly reviewed or refreshed.
- Claims are not verified robustly by Line Managers.

- The Oracle Payroll System currently has no Records Retention and Destruction time scales set.
- A full review of the procurement and monitoring of agency staff is required. Controls needed to be introduced in order to monitor timeframes agency staff are with the Authority which will provide transparent evidence of compliance with Policies and Regulations.

3.4   Treasury Management (Moderate)

3.4.1   The scope of this audit review is restricted to the provision of Treasury Management namely:

- Treasury Management Policy Statement and Strategies,
- Transaction accuracy and recording,
- Cash flow forecasts,
- Scrutiny of Treasury Management,
- CIPFA self-assessment questionnaire,
- Progress on the different initiatives highlighted in the report to Council.

3.4.2   Internal Audit noted that all loans and investments were accurately recorded on registers. Tests undertaken in relation to the movement of monies into a call and notice account were satisfactory with no issues noted. Additionally, a daily cash flow forecast is undertaken by a Business Finance Partner and a weekly reconciliation of investments is checked and signed off by the Head of Finance, Procurement and Commercial Services.

3.4.3   Key findings in relation to Treasury Management included:
- A lack of targeted Treasury Management knowledge within the Finance Team.
- Treasury Management reports do not go through regular scrutiny by Audit and Governance Committee.
- The CIPFA Effective Scrutiny of Treasury Management (2014) annual self-assessment has not been completed as required.

3.5   Main Accounting (Moderate)

3.5.1   The following key areas in relation to the Council's management of General Accounting were reviewed by Internal Audit:
- Policies & Procedures in relation to the collection and submission of the Authorities VAT return to HMRC,
- Reperformance of the December 2020 submission as evidence of conformance with those Policies and Procedures,
- Examination of the Civica General Ledger system access privileges to ensure they are relevant and not excessive.

3.5.2   Systems and procedures in relation to General Accounting reviewed by Internal Audit were found to be satisfactory, the following key findings were identified:
- Minor housekeeping amendments are required to the VAT Manual.
- The Finance Team need to understand how access to the Making Tax Digital Module (MTD) is administered in case of future need.
- There is a need to refresh the entry on the Council's Information Asset Register to reflect that the MTD system is now in use and the VAT return records are now stored electronically.
- Engagement with the CIVICA project team should be undertaken to enable an understanding of the individual access permissions so a new transparent hierarchy can be created which can be cross checked to independent admin user information.
- Consideration should be given to removing Systems Administration roles from those staff who have day to day processing responsibilities. If the conflict of

interest is accepted, then a risk should be recorded on the Council's Risk Management System – Pentana.

3.6   Corporate Land Allocations Budget Responsibilities (Limited)

3.6.1   The scope of this audit review was restricted to the following:
- Identify the systems which detail land and property ownership and ascertain whether a sample of land assets are recorded on the asset register,
- Establish how land responsibilities were established and review whether they are still valid,
- Ascertain whether a sufficient budget allocation is given to each service area for works required on land allocations and establish how this is managed,
- Review recharges,
- Review the maintenance of assets and their insurance requirements.

3.6.2   Systems and procedures reviewed by Internal Audit were found to be weak in some areas and the following was noted:
- The Council are potentially incurring expenditure that it has no liability for, such as Insurance, Utilities, Business Rates, and general maintenance.
- The Council are not always collecting income from leases and licences.
- The Council have no central budget for maintaining parcels of land and this means that the Council has a reactive rather than pro-active approach to maintenance.
- There is lack of evidence to support some of the departmental recharges and therefore service areas are unable to determine whether savings can be made by streamlining the service.
- The Strategic Asset Management Project ceased despite being highlighted as a good practice case study by the Department for Communities and Local Government (DCLG).

4.   Follow-Up Reviews

4.1   For the period 15th July 2021 to date, two follow up reviews are in the process of being undertaken for Fuel Management and Works after the Sale of Council Houses. The outcome of these reviews will be reported to this committee in due course.

5.   Fraud

5.1   As mentioned at the last Audit and Governance meeting in July 2021, the Council is taking part in the National Fraud Initiative (NFI) where required data sets were provided to the Cabinet Office for data matching purposes. Work has been ongoing by a number of officers across the Council on the high-risk data matches received and this has resulted in some favourable outcomes for the Council. Work on the data matches will continue until November 2021 and an exercise to look at Creditor – duplicate payments has been added to the Internal Audit Plan 2021/22 to replace an audit no longer required.

6.   Performance Indicators

6.1   As part of the Internal Audit Annual improvement review a refresh of the performance indicators was undertaken for 2021/22 and the following Performance Indicators introduced:

Indicator	Target	As at 15th October 2021
% Completion of the Internal Audit Annual Plan	90% of the audit plan completed by the end of the financial year, 31st March 2022	53%
% audit recommendations accepted by management, analysed by Priority Level	Priority 1 = 100% Priority 2 = 95% Priority 3 = 90%	Priority 1 = 100% Priority 2 = 100% Priority 3 = 100%
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.	100%
Customer Satisfaction Feedback	95% of feedback is Very Good, Good or Average rating	100%

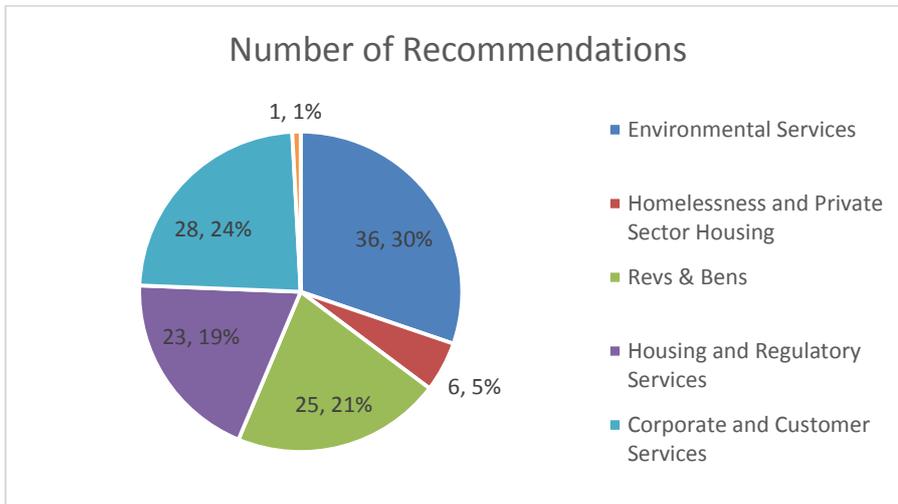## 7.   Internal Audit Recommendation Summary Information

7.1   The reporting of recommendation implementation progress is provided to this committee at each meeting. Recommendation implementation progress is also reported to the Corporate Management Team on a quarterly basis.

7.2   The following information represents the current status of 2019/20, 2020/21 and 2021/22 recommendations made. All recommendations are recorded on an internal spreadsheet and Internal Auditors regularly track progress of implementation. The system of monitoring will be changing in the coming months when a new Internal Audit Recommendation Portal in the Pentana System will be introduced.
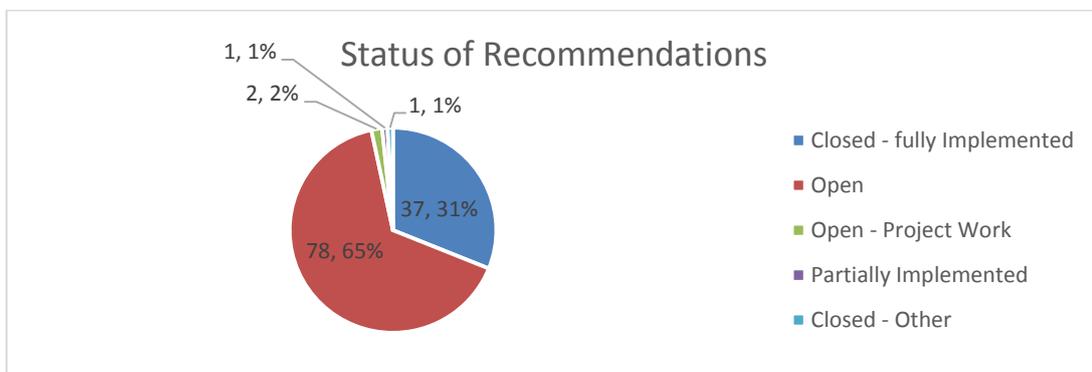
2021/22
7.3   From the Final Reports issued to date for 2021/22, Internal Audit have made 134 recommendations, all of which are within their implementation due date. Monitoring of these recommendations will be undertaken in accordance with the Internal Audit Recommendation Escalation Procedure where required.

7.4   From the Final Audit Reports issued to date for 2020/21, Internal Audit have made 119 recommendations. The breakdown of recommendations across service areas are as follows:

Number of Recommendations

- Environmental Services
- Homelessness and Private Sector Housing
- Revs & Bens
- Housing and Regulatory Services
- Corporate and Customer Services

1, 1%
28, 24%
36, 30%
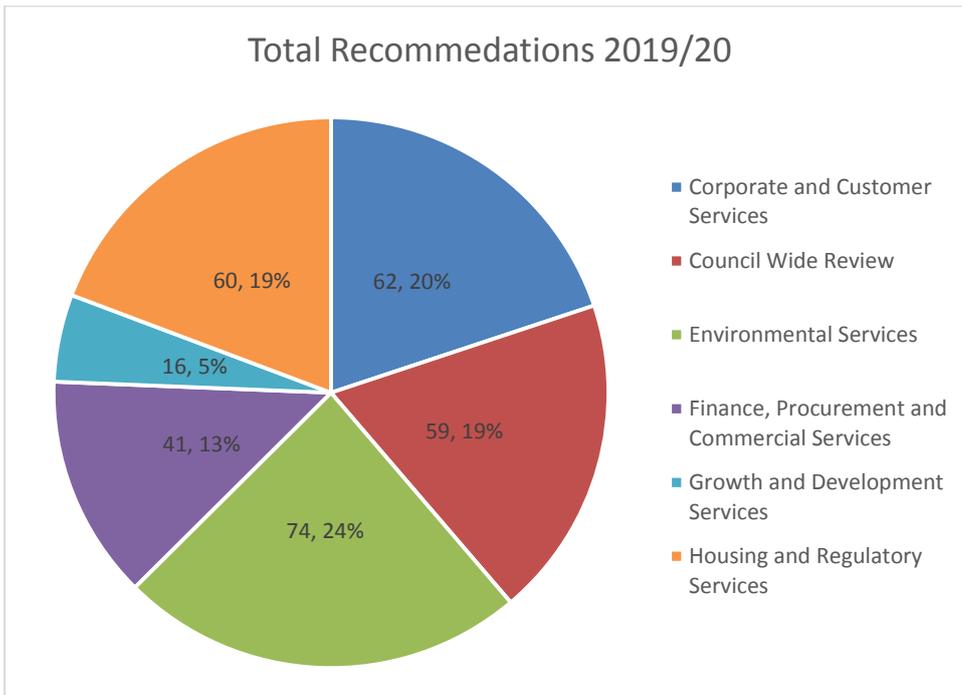23, 19%
25, 21%
6, 5%

7.5   Of the 119 audit recommendations made these can be broken down further to show their current status. It should be noted that of the 78 that are currently open, 29 are within their implementation date. Of the 49 that are overdue, 13 are currently subject to a follow up review, 11 are to be escalated to the Interim Head of Service and the remainder have either just become due or are in relation to BTLS and currently being reviewed by the new Head of Service and Service Manager.

Status of Recommendations

- Closed - fully Implemented
- Open
- Open - Project Work
- Partially Implemented
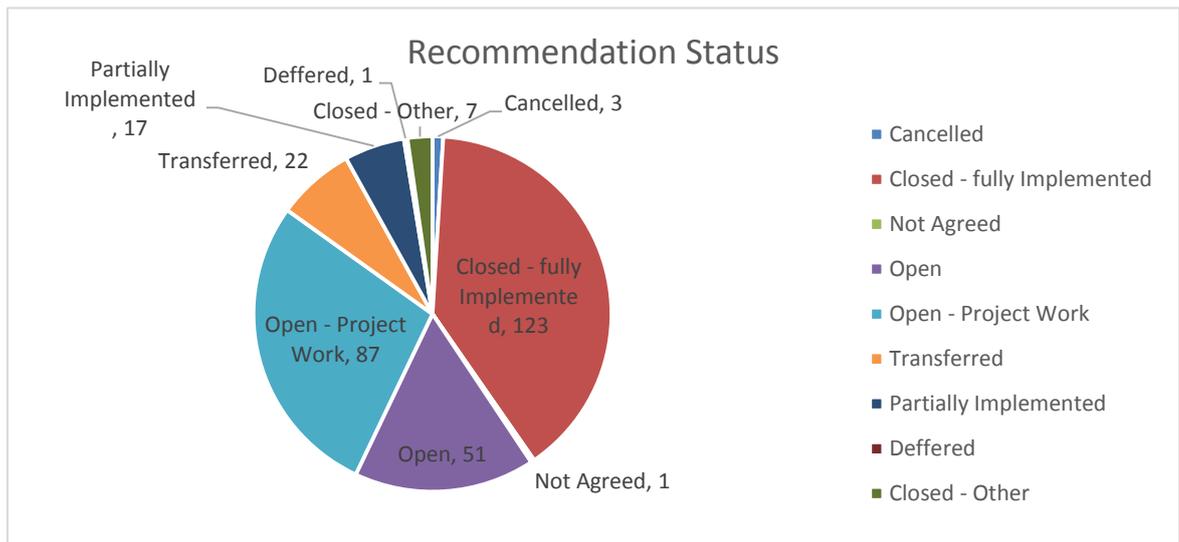- Closed - Other

1, 1%
2, 2%
1, 1%
37, 31%
78, 65%

7.6   From the Final Audit Reports issued during 2019/20 Internal Audit made 312 audit recommendations. The breakdown of recommendations across service areas are as follows:

Total Recommedations 2019/20

- Corporate and Customer Services
- Council Wide Review
- Environmental Services
- Finance, Procurement and Commercial Services
- Growth and Development Services
- Housing and Regulatory Services

7.7   Of the 312 audit recommendations made these can be broken down further to show their current status, it should be noted that of the 51 that are currently open, they are all overdue but subject to Internal Audit intervention, in that:

- 20 are being managed via a project team,
- 16 relate to BTLS and are subject to review by the new Head of Service and Service Manager,
- 15 have been referred to the Head of Service in accordance with the Internal Audit Recommendation Escalation Procedure.

Recommendation Status

- Cancelled
- Closed - fully Implemented
- Not Agreed
- Open
- Open - Project Work
- Transferred
- Partially Implemented
- Deffered
- Closed - Other

8. Public Sector Internal Audit Standards – Quality Assurance Improvement Plan (QAIP)

8.1 The Internal Audit Manager has been addressing outstanding actions that were highlighted as part of the Internal Audit Services compliance with the Public Sector Internal Audit Standards and reported to this committee in May 2021. A summary of the current status is as follow:

Section	Conforms	Partial	Not Conforming	Actions	Open Actions	Closed Actions
One	1	-	-	1	1	-
Two	1	1	-	1	1	-
Three	10	-	-	3	2	1
Four	5	-	-	-	-	-
Five	45	1	1	6	6	-
Six	57	4	1	16	6	-
Totals	119	6	2	17	16	1

8.2 This year's annual compliance review is currently being undertaken by one of the Internal Auditors and findings from this review will be provided to this committee in due course.

8.3 There will be a requirement for the Internal Audit Service to undergo an external assessment in March 2023 and arrangements for this will need to be agreed by the Audit and Governance Committee. The Internal Audit Manager will provide this committee with options available to the Council later in the financial year.

9. Conclusion

9.1 The 2021/22 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.