



Internal Audit Service
Annual Report and Opinion 2021/22

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Executive Summary

The Corporate Compliance and Governance 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 2021/22, 26 assurance audits were completed, 23 of which recorded an audit opinion. 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>	9
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>	10
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>	4

Based upon the work undertaken by Internal Audit in respect of 2021/22, and the continued implications of the Covid-19 epidemic on the Council's internal control framework, the opinion of the Corporate Compliance and Governance 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 2021/22, approved by this committee on 25th May 2021 are a primary source of assurance upon which the Corporate Compliance and Governance Manager's opinion is based. The plan presented and approved by Audit and Governance Committee Members was a twelve-month plan running from 1st April 2021 to 31st March 2022.
- 1.5 In arriving at this opinion, this report sets out:
- A summary of the Internal Audit work undertaken during 2021/22
 - A summary of the developments within Internal Audit during the year
 - The Corporate Compliance and Governance Managers key observations to support the opinion
 - The Corporate Compliance and Governance Managers opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in 2021/22.
- 1.6 It can be confirmed that there was no impairment to Internal Audit objectivity during 2021/22.

2. Internal Audit Work Undertaken During 2021/22

- 2.1 During the financial year 2021/22 the Internal Audit Service had a full complement of 3.8 FTE staff. Part way through the year there was a review of the team resulting in a restructure which took effect from the 1 April 2022. This saw the deletion of the Internal Audit Manager and 1 x Internal Auditor roles and the creation of the Corporate Compliance and Governance Manager and Principal Auditor roles.
- 2.2 The 2021/22 Internal Audit Annual Plan was compiled by the Corporate Compliance & Governance Manager using a Risk Based approach, consulting with members of the Corporate Management Team and considering the Councils objectives considering known local and external influences on risks to their achievement.
- 2.3 The 2021/22 plan was approved by the Audit and Governance committee on 25 May 2021 and was kept under review throughout the financial year. A few amendments were made to the Internal Audit plan throughout the year, and these were reported to this committee at the earliest opportunity. Any audits that were not undertaken during 2021/22 have been reassessed and where appropriate transferred to the 2022/23 Internal Audit Annual Plan.
- 2.4 During the year, 26 audit reviews have been completed to report stage, these include planned and unplanned reviews. The assurance opinions, where applicable, Internal Audit provided on the audit reviews carried out in the year are as follows:

Final Reports Issued

Audit Title	Assurance Opinion	Recommendation Priority Levels		
		P1	P2	P3
Allotments	No	11	7	3
GDPR – NHS DSC Toolkit Submission Review	N/A	N/A	N/A	N/A
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
Tawd Valley Developments – Governance Arrangements	Moderate	0	1	1
Duplicate Payments	Moderate	0	1	0
Bulky Waste	Limited	6	5	0
PSIAS Review	N/A	-	-	-
Garden Waste Service	Limited	3	8	0
Council Fleet	No	8	8	0
Debtors	Moderate	0	1	0
Rents	Moderate	0	1	6
Business Continuity	Limited	7	29	16
Ground Rents and Wayleaves	Limited	3	7	0
Low Carbon Homes	Limited	3	2	0
Sale of Logs	No	0	5	0

Audit Title	Assurance Opinion	Recommendation Priority Levels		
		P1	P2	P3
Business Grants – Covid-19	N/A	-	-	-
Procurement - Derby Street and Robert Hodge Centre Works	No	13	1	0
Housing Benefits and CTRS	Moderate	0	2	1
Creditors D100	Limited	0	13	0
Council Tax	Moderate	0	10	5
Code of Conduct for Officers and Members	Limited	2	9	4

Audits with extended scopes to continue into 2022/23

Audit Review	Stage of Audit
Voids	Fieldwork - Four out six scope areas completed
Business Rates	Fieldwork – to be continued in Quarter 3.

Audits Cancelled or deferred until 2022/23

Audit Review	Position
Use of Council Assets by Commercial Organisations	Cancelled
Asbestos	To be undertaken during 2022/23
Housing Allocations	To be undertaken during 2022/23

- 2.5 Internal Audit have continued to work with Service Managers to ensure that audit recommendations are implemented in accordance with agreed Management Action Plans. Progress to implement recommendations is being reported to CMT on a quarterly basis and the Internal Audit Recommendation Escalation Procedure is utilised where required.
- 2.6 Internal Audit have continued to be involved in several Council projects including Information Governance (NHS DSPT, UK GDPR) and Business Support. When working on projects Internal audit 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 other audit work priorities associated with unplanned work and will now be undertaken by the Corporate Compliance & Governance Manager during 2022/23 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 the Audit and Governance Committee during 2022/23.
- 2.8 The Corporate Compliance & Governance Manager acts as the Councils Key Contact for the National Fraud Initiative (NFI). During the year the Corporate Compliance & Governance Manager worked with colleagues across the Council to collate data sets for

upload into the Cabinet Offices NFI portal. This allowed for 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 investigated. The following results to date have been achieved:

Match Type	Cases	Fraud Prevented	Total Fraud/Overpayment identified
HB matched to Student Loans	2	£4,243.26	£9,188.08
HB matched to Taxi Drivers	1	-	£1,948.43
Duplicate Invoice - Creditor Ref, Invoice Ref and Invoice amount	2	-	£5,355.95
Duplicate Invoice - Creditor Ref, Invoice amount	2	-	£4,140.42
Council Tax - Electoral Register	7	-	£9,096.41
Council Tax - SPD Rising 18's	10	-	£6,530.19
Council Tax – Other	1	-	£1,849.98
Total	25	£4,243.26	£ 38,109.46

- 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. One referral for investigation was received by Internal Audit during the year and the outcome of this investigation was reported to Audit and Governance Committee Members on the 31 May 2022.

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 Public Sector Internal Audit Standards (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 remains to be very few face to face meetings following the lifting of Covid-19 restrictions that were in place during the year and the team have found that meetings held remotely over Microsoft Teams are efficient and a better use of theirs and the auditees time. 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 continue to comply with PSIAS but also ensure that we are working as efficiently as possible.
- 3.5 The Internal Audit Service has developed its own intranet page which provides some useful information. <http://wlintranet/rules-and-regulations/audit.aspx>. This will be kept under review and updated as required.
- 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. Corporate Compliance and Governance Manager's Key Observations

Corporate Governance

- 4.1 The Internal Audit Service undertook the annual review of the Councils compliance with the CIPFA – Delivering Good Governance in Local Government Framework – 2016 Edition for the financial year 2021/22. An action plan is in place and is monitored regularly with progress reports being reported to the Council's Corporate Management Team (CMT) on a quarterly basis.
- 4.2 Governance Assurance Statements (GAS) have been provided to CMT members to complete for the 2021/22 financial year. This enables them to demonstrate their compliance with Corporate Governance Principles and if required report any issues that they perceive to be a significant governance issue.
- 4.3 Work to address the significant governance issues reported in the Annual Governance Statement 2019/20 has been ongoing and good progress has been made. This progress has been reported in the Annual Governance Statement 2020/21. Due to the audit of the financial accounts for 2020/21 being delayed the Annual Governance statement for 2020/21 will be presented to the Audit and Governance Committee on 27 July 2022.
- 4.4 The planned assurance work undertaken by Internal Audit helps to inform the production of the Annual Governance Statement (AGS). The AGS for 2021/22 will be reported to the Audit & Governance Committee as part of the Council's financial statements for the year in due course.

Risk Management

- 4.5 During the year a significant amount of work has been undertaken to further embed Risk Management in the Council. The Risk Management Policy and Toolkit was reviewed and updated during the year and presented to the Audit and Governance Committee for approval. Staff and Members have received training by the Risk and Insurance Officer and a range of training information and videos are readily available to staff and members to access on the Risk Management intranet page.
- 4.6 All Council risks are recorded on the Pentana Risk system, and these are routinely monitored, updated as and when required and reported on by risk owners/champions. Key risks are reported to the Executive Overview and Scrutiny Committee and Cabinet every six months which gives members the opportunity to review and if required challenge.
- 4.7 Work will continue into 2022/23 to build on all the good work and progress that has been made during 2021/22. This will include an external assessment of Risk Management in the Council by the Council's insurers.

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 is compliant with UK GDPR. The Effective Data Management (EDM) Project Team was set up to address gaps in compliance and to implement Internal Audit Recommendations from the GDPR Audit review 2019/20. During 2021/22 the EDM Project Team completed all the tasks required ensuring that all but two outstanding audit recommendations were implemented. Work will continue to ensure that the good work undertaken by the EDM Project Team is built upon and continues to be embedded across the Council.

4.9 To enable the Council to continue to utilise NHS patient level data for strategic service planning purposes, it must comply with the requirements of the NHS Data Security and Protection Toolkit (DSPT). Work was undertaken to ensure that each of the NHS DSPT statutory assertions was complied with. Internal Audit undertook an independent review of each assertion and supporting evidence before it was successfully uploaded to the NHS portal before the statutory deadline date.

Peer Review

4.10 During 2021/22 the Council had a Local Government Association Corporate Peer Challenge. This peer team was made up of experienced elected member and officer peers and took place 15 – 17 March.

4.11 The Peer team looked at five key themes:

- Local priorities and outcomes
- Organisational and place leadership
- Governance and culture
- Financial planning and management
- Capacity for improvement

4.12 The Peer Teams feedback was positive, however, there are observations and suggestions that will form part of an action plan for the Council to consider and address as required.

5. Quality Assurance and Improvement Programme (QAIP)

5.1 An internal self-assessment of the Internal Audit Services compliance with PSIAS has been undertaken during 2021/22 and the QAIP action plan Updated. Work has been undertaken to address the actions from the self-assessment from 2020/21 and the status is as follows:

Current Status: (following 2021/22 review)

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	46	1	-	5	2	3
Six	60	2	1	2	2	-
Totals	123	4	1	12	7	5

Summary of outstanding actions:

- Corporate Compliance & Governance Manager to review output of the Internal Audit Skills Assessment and then consider the training needs for the 2022-2023.
- Corporate Compliance & Governance Manager to formally document an Internal Audit's plan of engagement activities risk assessment.
- Corporate Compliance & Governance Manager to create an Assurance Landscape to capture all areas of assurance received across the Authority and in particular evidence of compliance that the ICT Strategic Client Manager obtains.
- The Corporate Compliance & Governance Manager to make comment re Line Management conflicts in the Annual Audit Report that is presented to Audit & Governance for transparency.
- Corporate Compliance & Governance Manager to look at proactive fraud investigation possibilities / training vs team current capabilities.
- Corporate Compliance & Governance Manager, to undertake a self- assessment using the CIPFA Audit Committee guidance, App D Self-Assessment of Good Practice and present the outcome to the Audit and Governance Committee.
- Corporate Compliance & Governance Manager to discuss the transfer of the residual processes and controls to another area with the Corporate Finance Manager.

Previous Status: July 2021 (2020 - 2021 review)

Section	Conforms	Partial	Not Conforming	Actions	Open Actions	Closed Actions
One	1	-	-	1	1	-
Two	1	1	-	7	1	6
Three	10	-	-	4	2	2
Four	5	-	-	2	-	2
Five	41	3	2	21	7	14
Six	57	4	1	16	5	11
Totals	115	8	3	51	16	35

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 Corporate Compliance & Governance Manager reviews and signs off all Audit Briefs before they are provided to the auditee. Quality assurance is also undertaken by the Corporate Compliance & Governance Manager to ensure consistency, quality and compliance with the service's standard planning, fieldwork and reporting processes. Additionally, the Corporate Compliance & Governance 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 Corporate Compliance & Governance Manager meets with each Internal Auditor on a monthly basis for a one-to-one session and regular team meeting are also held.

Internal Audit Performance Indicators

5.7 The following Performance Indicators were reintroduced during 2021/22 due to being temporarily suspended in 2020/21. The results for the year are as follows:

Indicator	Target	2021/22 Actual	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	97%	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%	100%	<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.	100%	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	100%	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 Corporate Compliance and Governance Manager can confirm that there have not been any impairments to the objectivity and independence of the team.
- 6.2 The framework also allows for the Corporate Compliance and Governance 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.
- 6.4 Following a recent restructure the post of Internal Audit Manager has been deleted from the establishment and a new post of Corporate Compliance and Governance Manager introduced. Following a recruitment process the Internal Audit Manager was appointed to this new post and assumes responsibility for the following Services:
- Internal Audit
 - Risk Management
 - Insurance
 - Procurement
 - Information Governance
 - Business Grants (Covid-19)
- 6.5 In order to ensure that the independence of the Corporate Compliance and Governance Manager is not impeded when internal audit reviews are undertaken in the areas, she has responsibility for, appropriate controls have been put in place. These controls include:
- Scope of work being agreed by both the Corporate Compliance and Governance Manager and Head of Finance, Procurement and Commercial Services.
 - Any findings requiring immediate attention will be reported to the Head of Finance, Procurement and Commercial Services and if required the Corporate Director of Transformation, Housing and Resources.
 - Audit reports will be addressed to the Head of Finance, Procurement and Commercial Services and implementation of recommendations will be required in accordance with the Internal Audit Recommendation Escalation Procedure.
 - In the event that the Corporate Compliance and Governance Manager does not adhere to the Internal Audit Recommendation Escalation Procedure the Principal Auditor can and will report non-compliance to the Head of Finance, Procurement and Commercial Services and if necessary, the Chair of the Audit and Governance Committee.

7. Overall Opinion for 2021/22

- 7.1 Based upon the work undertaken by Internal Audit in respect of 2021/221, and the implications of the Covid-19 epidemic on the Councils internal control framework, the opinion of the Corporate Compliance and Governance 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 Whilst it should be acknowledged that there are a small number of audit reviews that received a limited or no assurance opinion work to address and implement recommendations has been carefully monitored and the Corporate Compliance and Governance Manager is satisfied with the progress that is being made by Service Managers. Additionally, the work to address the significant governance issues that were reported in the 2019/20 and 2020/21 Annual Governance Statements has also been satisfactory.
- 7.3 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, progress made to implement recommendations made by Internal Audit, conversations with members of CMT and utilised documentation that has been provided to me throughout the year.
- 7.4 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 Corporate Compliance and Governance 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.