



Internal Audit Service
Annual Internal Audit Report and Opinion 2022/23

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Executive Summary

The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the Councils Internal Audit Charter. 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.

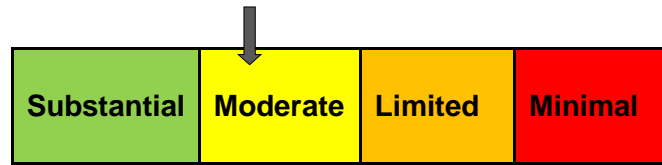
In respect of 2022/23, 24 assurance audits were completed, 20 of which recorded an audit opinion. The overall audit opinions given in the assurance audit reports can be summarised as:

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>	1
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>	8
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>	11
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

Additionally, the Internal Audit Service have undertaken seven follow up reviews which have resulted in confirmation that Internal Audit recommendations have been implemented or work is

progressing well to implement recommendations. All of the follow up reviews undertaken have seen their assurance opinion increase.

Based upon the work undertaken by Internal Audit in respect of 2022/23, 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**.



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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 2022/23, approved by this committee on 31 May 2022 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 2022 to 31st March 2023.
- 1.5 In arriving at this opinion, assurance can never be absolute and therefore, only moderate assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on
- A summary of the Internal Audit work completed during the year
 - The results of any follow up audit reviews in respect of previous and current years internal audit work
 - The results of other review bodies where appropriate
 - A summary of the developments within Internal Audit during the year
 - The quality and performance of the internal audit service and the extent of the compliance with the Public Sector Internal Audit Standards (PSIAS)
 - The Corporate Compliance and Governance Managers key observations and knowledge of the organisation.
- 1.6 It can be confirmed that there was no impairment to Internal Audit objectivity during 2022/23.

2. Internal Audit Work Undertaken During 2022/23

- 2.1 During the financial year 2022/23 the Internal Audit Service had a full complement of 3.8 FTE staff. Part way through the year, one Internal Auditor was promoted to the post of Information Governance and Operational Compliance Manager (DPO) within the Corporate Compliance and Governance Service. A number of unsuccessful recruitment exercises have been undertaken to recruit to this Internal Auditor vacancy. It has now been agreed that this post will be reviewed and changed to a career graded post as recommended by the PSIAS external assessor.
- 2.2 The 2022/23 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 2022/23 plan was approved by the Audit and Governance committee on 31 May 2022 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 2022/23 have been reassessed and where appropriate transferred to the 2023/24 Internal Audit Annual Plan.
- 2.4 During the year, 24 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

Assurance Audits	Audit Opinion
Country Park and Rangers	Limited
Drainage and Watercourses	Limited
Clinical Waste	Limited
Playground Inspections	Limited
Environmental Protection - Response to Complaints	Limited
Property Services Compliance - Gas	Limited
Property Services Compliance – Electric	Moderate
Voids	Limited
Business Grants Covid - 19 Post Payment Assurance	N/A
Commercial Property Compliance – Leisure	Limited
Assurance Mapping	N/A
Corporate Governance	Moderate
Procurement – Fleet Contract - Tyres	Limited
Financial Systems	
Housing Benefits and CTRS	Moderate
Creditors	Moderate
Debtors	Moderate
Council Tax	Moderate
Business Rates	Substantial
Payroll – Implementation of Fusion LCC	Limited

Rents	Moderate
Treasury Management – Corporate Credit Card	Moderate
Information Governance	
GDPR – Door Security	Limited
NHS DPST submission	N/A
Compliance	
Public Sector Internal Audit Standards Review	N/A

- 2.5 With the full support of the Councils Corporate Management Team, a positive drive to address and ensure full implementation of outstanding audit recommendations has taken place during the year. This has seen weekly summary reports on the status of outstanding audit recommendations being provided to the Chief Operating Officer, Corporate Director and Heads of Service. There has been a significant reduction in outstanding audit recommendations from previous years.
- 2.6 Internal Audit have continued to work with Service Managers to ensure that any new audit recommendations are implemented in accordance with agreed Management Action Plans. In addition to weekly summary reports, progress to implement recommendations is also being formally reported to CMT on a quarterly basis and the Internal Audit Recommendation Escalation Procedure is utilised where required.
- 2.7 During 2022/23 a monthly compliance report was introduced and provided to each Head of Service for their respective service area. The report RAG rates the service in relation to their compliance status for Internal Audit, Risk Management, Insurance, Information Governance and Procurement. The Corporate Director of Transformation, Housing and Resources and Corporate Compliance and Governance Manager discuss the contents of the report with each Head of Service and set targets for improvement or action where necessary.

Counter Fraud Work and Investigations

- 2.8 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 2023/24 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 2023/24.
- 2.9 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 there are currently 79 reports available containing 1951 matches. High fraud matches will be reviewed in the first instance and outcomes will be reported to the Audit and Governance Committee in due course.
- 2.10 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. There have not been any referrals for investigation during 2022/23.

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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. An annual review of working papers and reporting was undertaken, and slight amendments to the format of the report were made and implemented during the year.
- 3.2 The Internal Audit Service is required to comply with the PSIAS. Each year an internal assessment in relation to ongoing compliance with PSIAS is undertaken by an Internal Auditor in liaison with the Corporate Compliance and Governance Manager and findings form part of the Quality Assurance and Improvement Programme (QAIP). Every five years the Internal Audit Service must undergo an external review of their compliance with PSIAS, and this must be reported to Management and Audit & Governance Committee. An external review was undertaken by CIPFA in February 2023 and further information is detailed in Section 5 of this report.
- 3.3 All members of the Internal Audit Service work flexibly and have adapted to new ways of working and undertaking Internal Audit Reviews. This year there has been an increase in the number of face-to-face meetings now that Covid 19 restrictions have been removed. Even though Covid 19 restrictions have been lifted Internal Auditors have continued to use other methods for collecting and analysing evidence which worked well, and this has led to more efficient use of time.
- 3.4 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 2022/23. The final report is about to be issued and this will be monitored using Pentana. The Council's Corporate Management Team (CMT) will have up to date information on the status of findings and recommendations via a dashboard in Pentana.
- 4.2 Governance Assurance Statements (GAS) have been provided to CMT members to complete for the 2022/23 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 2021/22 has been ongoing and good progress has been made. This progress has been reported in the Annual Governance Statement 2022/23.
- 4.4 The planned assurance work undertaken by Internal Audit helps to inform the production of the Annual Governance Statement (AGS). The AGS for 2022/23 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 During 2022/23 an external assessment of Risk Management in the Council was undertaken by the Council's insurers. The following positive results were reported:
- Strong, clear and consistent messaging from Leadership around Risk Management
 - Embedded processes for Corporate Risks around review, escalation and monitoring from both officers and members at the council.
 - Use of Risk Appetite to support review and decision making.
 - Comprehensive suite of training material for staff, newsletters, webinars, 3rd party delivery.
- 4.8 Overall the Council was judged to have a Level 3 – Managed risk maturity. The assessor noted that *"given the complexity of services provided and the resources often available to support risk management within the public sector, a good score is considered at level 3, Managed, whilst most local authorities would be judged to be level 2, In Development."*

- 4.9 The following key opportunities were recommended and work to implement these is ongoing:
- Operational risk management is behind the corporate risk management; it requires further work to embed a process and ensure risks are reviewed and reported at Head of Service level.
 - Key person dependency on the Risk and Insurance Officer post holder, consider utilising a Risk Champions network within departments to support the Risk & Insurance Officer in managing the risk management process.
 - Incorporate Risk Management into other areas of reporting and consideration, such as performance.

Information Governance

- 4.10 Information Governance has continued to be a priority for the council and work has taken place to ensure that the Council remains compliant with UK GDPR.
- 4.11 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.

Business Grants

- 4.12 The Council has recently received a report from the Department of Business, Energy and Industrial Strategy to confirm that their review of a sample of support grants processed by Staff at the Council has been completed and it was found that none of the businesses reviewed had been identified as being ineligible for the grant they received. This is testament to the diligence and hard work of the Council staff involved in the management and processing of grants to local businesses and the internal systems that were introduced in a very short timeframe.

Procurement

- 4.13 During 2022/23 the Council's Procurement Service underwent significant change and moved from a decentralised service to a centralised service. The Service was initially part of the Corporate Compliance and Governance Service, managed by the Corporate Compliance and Governance Manager, however, the Council's external auditor expressed concern about this management arrangement in relation to the potential or perceived conflict of interest and impact on the Corporate Compliance and Governance Manager's independence. In order to address the external auditor's findings and recommendations the management of the procurement service was transferred to the Head of Finance, Procurement & Commercial Services.
- 4.14 Additional value for money work was carried out by the external auditor due to the outcome of the internal audit report on the work carried out at Derby Street and Robert Hodge Centre. At the time of writing the outcome of this work is not yet known. There is a risk that any findings and recommendations made by the external auditor may impact on the Corporate Compliance and Governance Manager's annual opinion.

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 2022/23 and the QIAP action plan updated accordingly. Work has been undertaken to address the actions noted in the self-assessment in time for the external assessment that was undertaken in February 2023.

External Assessment

- 5.2 An external assessment must be conducted at least every five years, in accordance with the PSIAS. The five-year assessment was due in early 2023 and the appointment of the External Assessor and scope of the external assessment was approved by the Audit and Governance Committee at its meeting in October 2022. The external assessment took place in February 2023 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 2028.

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 used during 2022/23 and the results for the year are as follows:

Indicator	Target	2022/23 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 2023	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 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, Monitoring 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.
- 6.4 The Corporate Compliance and Governance Manager assumes responsibility for the following Services:
- Internal Audit
 - Risk Management
 - Insurance
 - Information Governance
- 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 Corporate Director of Transformation, Housing & Resources or the 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 the Corporate Director of Transformation, Housing and Resources.
 - Audit reports will be addressed to the Corporate Director of Transformation, Housing & Resources 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, Corporate Director of Transformation, Housing & Resources and if necessary, the Chair of the Audit and Governance Committee.

7. Overall Opinion for 2022/23

- 7.1 Based upon the work undertaken by Internal Audit in respect of 2022/23, 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 number of audit reviews that received a limited 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. A number of follow up audit reviews have been undertaken and all have seen their assurance rating move up to the next rating.
- 7.3 Additionally, the support and work by management to address the outstanding audit recommendations from previous years has resulted in a high volume of outstanding audit recommendations being fully implemented and embedded into Council systems and processes. Work to address the significant governance issues that were reported in the 2019/20 and 2020/21 Annual Governance Statements has been ongoing and mainly addressed.
- 7.4 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, reports undertaken by external parties, progress made to implement recommendations made by Internal Audit, conversations with members of CMT and utilised documentation that has been provided throughout the year.
- 7.5 It must be noted, however, that at the time of writing the Council's external auditor has not signed off the accounts for the years 2020/21 or 2021/22. The outcome of the external auditors findings may present a risk to the Councils control framework, and result in a future change to this opinion.
- 7.6 It should also 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 exist, 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.
Minimal	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.