



Annual Internal Audit Opinion 2017/18

Background

The Accounts and Audit Regulations 2015 require the Council to maintain an adequate and effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.

The applicable standards are the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1st April 2013.

In accordance with the standards, the Head of Internal Audit (Audit Manager) is required to deliver a report to those charged with governance, timed to support the Annual Governance Statement, (Regulation 4 of the Accounts and Audit Regulations 2015), which must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

Responsibilities

It is a management responsibility to develop and maintain the internal control framework and to ensure compliance. It is the responsibility of Internal Audit to form an independent opinion on the adequacy of the system of internal control.

Independence and Accountabilities

Internal Audit remains (with the exception of below) independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.

In addition, the Audit Manager has direct free and unfettered access and freedom to report in his own name and without fear or favour to all officers and members, particularly to those charged with governance (including the Chief Executive and the Chair of the Audit Committee). Where internal audit staff have a perceived or real conflict of interest in undertaking a particular piece of work (whether for personal reasons or through undertaking any non-audit duties), this will be managed by the Audit Manager or the Chief Financial Officer.

During 2017-18 each Auditor signed a declaration (code of ethics statement) to affirm that there were no conflict of interests that would impact on the independence, integrity, professionalism or the quality of the work during the year.

The Audit Manager is one of several designated officers providing back up approval of Treasury transactions. This function is mitigated by the fact that roles are clear and separation of duties is maintained i.e. the Audit Manager has no involvement in decision making, setting up or inputting transactions for processing.

The Audit Manager also maintains control of the issue of the Council's Procurement Cards. Both systems were reviewed independently during the year by the Auditor and no independence issues arose, and there was oversight provided by the Financial Services Manager.

Audit Opinion 2017-18

The Internal Audit work undertaken during the year has enabled Internal Audit to provide an objective assessment of whether systems and controls are operating effectively. In giving an audit opinion, however, it should be noted that assurance can never be absolute. However, the scope of the activity undertaken is sufficient for reasonable assurance to be placed on the work.

All work undertaken by Internal Audit during the financial year was in conformance with the PSIAS and the opinion on internal controls of the council is based on that work relating to 2017/18. Internal Audit reports on both Corporate Governance and Internal Control arrangements. The Internal Audit Manager was satisfied through the review of internal control during 2017/18 that internal control in the Council is good, although it is not possible to provide absolute assurance about the overall system of internal control. This is based on the outcomes of the audit activity where the all reviews were either given substantial or full assurance.

Where there has been a level of non-compliance with controls then recommendations have been made and Internal Audit has worked with Management to agree a timescale for implementation of these.

Audit Resource

The Internal Audit Service was delivered by a suitably qualified team comprising of the Audit Manager and Auditor, 2 FTE. The Audit Manager is a qualified member of the Association of Chartered Certified Accountants (ACCA) member. The Auditor is a part qualified member of the Chartered Institute of Management Accountant (CIMA).

Each member of the team regularly participates in Continuing Professional Development (CPD) and have attended the North West Audit Risk & Governance Groups training courses on Counter Fraud, Money Laundering and Governance this year, which was provided by C.I.P.F.A.

The Audit Manager is also a regular participant at the Lancashire District Councils' Audit Group and the Auditor attends the Computer Audit Group meetings throughout the year, thereby maintaining close contact with Heads of Internal Audit Units within the Lancashire region. As part of a reciprocal arrangement with the Lancashire District Councils' Audit Group the Audit Manager was part of an external review team that undertook external peer reviews of Internal Audit departments at Burnley Borough Council (May 2018) and Hyndburn Borough Council (February 2018).

The Internal audit service was supplemented by a bought in computer audit resource provided by Mersey Internal Audit Agency (MIAA). MIAA undertook 3 reviews during the year of the Council's ICT arrangements (see below).

Internal Control

In support of the Accounts and Audit (Amendment) Regulations 2015, the Council must now include an Annual Governance Statement (AGS) in the yearly Statement of

Accounts which should include an assurance by Internal Audit of the Council's internal control arrangements.

The AGS requires the Council to undertake a broader review of the Council's governance framework and arrangements. The statement must be approved by the Leader of the Council and the Chief Executive and considered by the Policy and Resources Committee. Directors and Service Managers also provide a signed assurance to support the statement and in this way acknowledge their individual responsibilities for internal control. Internal Audit reports on both Corporate Governance and Internal Control arrangements and these are key elements of the AGS.

Audit Performance

A range of local performance indicators was established to measure the performance of Internal Audit. A summary of the performance indicators for 2017/18 is provided at Appendix A and B.

Client Satisfaction

After the completion of each individual audit assignment, the Audit Manager issues a client satisfaction questionnaire to each auditee along with the final audit report. The purpose of the questionnaire is to obtain information from auditees about a range of issues including:-

- Conduct of the Auditor
- Effectiveness of the Audit
- Timeliness of Reporting

The Auditee is required to rank performance on each criterion giving an overall assessment score. In 2017/18, the average score for all questionnaires was 93.0% satisfaction compared to a Key Performance Indicator (KPI) target of 90%. (This is based on

Benchmarking

The Lancashire District Audit Group undertook a benchmarking exercise during 2017. All Lancashire District Councils were invited to participate, and nine authorities submitted data. The exercise used 2017/18 budget data and 2016/17 actual expenditure and examined functions, roles and remit of each Internal Audit Unit. The exercise showed that Pendle's Internal Audit service to provide good value and efficient service when compared to local districts. The results of the exercise were shared at the Accounts & Audit Committee meeting in January 2017.

Compliance with Public Sector Internal Audit Standards

The work of Internal Audit must be conducted in compliance with Public Sector Internal Audit Standards (PSIAS) which were adopted from April 2013. The PSIAS standards comprise Attribute Standards (ranging from the Purpose, Authority and Responsibility of Internal Audit to having a Quality Assurance and Improvement

Programme) and Performance Standards (including Managing the Internal Audit Activity, Audit Planning and Performance and Communicating the results of the work undertaken).

Compliance with the PSIAS provides an indication of the effectiveness of the system of internal audit and in recognition of this, there is a checklist against which local authorities can self-assess compliance, this is done annually and we can report ongoing compliance.

An external assessment of Internal Audit was also carried out in November 2016 (reported to Committee in January 2017) to check amongst other matters compliance with the checklist. There are 327 questions on CIPFA LGAN Checklist with the Standards. The report from the Peer Review team determined that the internal audit service conformed to the standards. The Peer Review identified 4 points for consideration into the service's QAIP (Quality Assurance & Improvement Programme). An update in relation to these points is provided below;

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
2330 Documenting Information	3.3.1	The employment of Furness Audit Ltd as providers of IT audit did not include the provision of working papers or specific assurance on the application of the PSIAS requirements in the Audit. When employing other assurance providers it would assist in the demonstration of compliance if the external supplier provided supporting working papers for retention or a statement of conformance with the PSIAS.	Audit Manager	Mersey Internal Audit Agency currently provides the Council with a computer audit service. Specific assurance was obtained on application of PSIAS.
1110 Organisational Independence	3.3.2	The PSIAS requires the inclusion of the chief executive and the chair of the audit committee in the performance appraisal of the Chief Audit Executive. In Pendle's case this would require input from the Strategic Director and Chair of the Accounts and Audit	Audit Manager	Currently Section 151 Officer responsible for performance review of the Internal Audit Manager.

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
		Committee in the appraisal of the performance of the Audit and Performance Manager in respect of his internal audit duties.		
2240 Engagement Work Programmes	3.3.3	There should be a process of approval of work programmes prior to implementation for the audit and the prompt approval of subsequent alterations to the work programmes.	Audit Manager	Approval process has been implemented for all audit reviews.
2330 Documenting Information	3.3.4	The Audit and Performance Manager has set standards for access and retention of audit records, these should be considered for formal recording in a procedure or policy, specific to the requirements of the service and Council.	Audit Manager	All audit records currently held securely on the Council's network. Formal recording process will be adopted in line with GDPR regulations and the Council's retention policy.

PSIAS Action Table - External Peer Review November 2016

Internal Audit Coverage and output

The Annual Internal Audit Plan for 2017/18 is based upon the first year of the three year Strategic Audit Plan 2017-20. A risk based approach has been used to develop the plan which includes an Audit Needs Assessment across the entirety of Council activity. This allowed limited audit resources to be targeted at areas of highest risk whilst at the same time ensuring that all auditable areas are audited on a systematic basis. The Plan anticipated that the percentage planned audit and risk coverage of all audit areas will be at 60% in each year. The Plan for 2017-18 was approved by Management Team and the Accounts and Audit Committee in March 2017.

Internal Audit completed 20 audit reports up to the end of March 2017 with a further 10 reports completed in early part of the 2018/19 financial year.

All high risk and key financial systems were reviewed. The main system reviews comprising this slippage were Housing Benefits, Council Tax, NNDR, Main Accounting and

Payroll. It is worth noting that it is not unusual for main systems to sometimes slip into the following financial year, as these are the largest areas and for testing purposes, they are normally audited in the last quarter of the financial year. 1 activity, Building Control wasn't reviewed during the year, this has been carried forward into 2018-19.

The following table captures the level of assurance issued for each review including those that slipped into 2017/18. There were no 'Limited Assurance' or 'None Assurance' opinions given during the year.

Summary of Audit work

<u>Audit No</u>	<u>Service</u>	<u>Report Title</u>	<u>Audit Activity</u>	<u>Audit Opinion</u>	<u>Actions Agreed</u>
1	Housing & Health Services	Homelessness	Policies and procedures governing homelessness and review of income and expenditure budgets	Full	No further actions required
2	Environmental Services	Cemeteries	Sample of cemeteries services provided and income collection	Substantial	3 recommendations made, regarding payment of invoices and testing of the BACAS system.
3	Legal Services	Land Charges	Reviewed income records and examined performance of the service	Substantial	2 recommendations were made, 1 wasn't accepted due to complications in implementing the recommendation, the other related to ICT issues.
4	Economic Development	Town Centre Grants	Examined process for accepting applications for town centre grants	Substantial	5 recommendations made to improve budget monitoring, officers declarations and record keeping.
5	Human Resources	Car Mileage	Reviewed a sample of claims made and driver eligibility to drive on council business	Substantial	6 recommendations made concerning accuracy of claims and ensuring all driver documentation was in place
6	Democratic Services	Freedom of Information	Examined policies and procedures governing FOI requests.	Substantial	3 recommendations made concerning improving administration and use of Pentana to improve monitoring, the latter wasn't accepted.

7	Financial Services	Procurement	reviewed processes for monitoring procurement cards and examined spend	Substantial	2 recommendations made concerning administration of the system.
8	Environmental Services	Trade Waste	Examined charges relating to trade waste collection and processes in place to increase trade waste income	Substantial	2 recommendations made to improve recovery of debts
9	Financial Services	Vehicle and Plant	Check of fleet records and register	N/A	No further actions required
10	Corporate	Health and Safety	Follow up of previous audit recommendations	N/A	No further actions required
11	Neighbourhood Services	Engineering Contracts	Examined procedures in tendering contracts and reviewed controls	Substantial	7 recommendations made to improve usage of the chest system, carrying out contractor checks and improve the select list
12	Financial Services	Treasury Management	Verified compliance with the Treasury Management policy and CIPFA guidance	Substantial	2 recommendations made to improve practice mainly around record improvements
13	Democratic Services	Elections	Administration of elections and elections payments	Full	None made
14	Housing & Health Services	PSH Enforcement	Examined enforcement procedures under the Housing Act 2014	Substantial	4 recommendations made, regarding file maintenance, debt recovery and the website information held
15	Housing & Health Services	Public Health Recharges	Examined policies and procedures recharges and income collection and recovery	Substantial	6 recommendations were made, regarding administration and recovery of recharges.
16	PLT	Leisure Trust	See below	Substantial	See below

17	Property Services (Liberata)	Land and Property	Mechanisms in place to buy and sell council property	Substantial	1 recommendation to improve records concerning receipt of funds when selling an asset.
18	Treasury Services (Liberata)	Council Tax	Examined procedures relating to collection of council tax	Substantial	2 recommendations made, 1 relating to refunds and the other improving system notes held
19	Treasury Services (Liberata)	NNDR	Examined procedures relating to collection of business rates	Substantial	5 recommendations made concerning improving record keeping and updating the website.
20	Planning, Building Control & Licensing	Taxi Licensing	Examined collection of income, processing of applications and safeguarding processes including DBS checks.	Substantial	1 recommendations was made to highlight the complaints process
21	Financial Services	Insurance	Reviewed the Councils Insurance arrangement and mitigation strategies	Substantial	1 recommendation regarding production of a guidance note for staff involved in procurement.
22	Planning, Building Control & Licensing	Licensing	Examined licensing income and processes in place to account for income accurately	Substantial	5 recommendations made, relating to the new Idox system, training and accurate reconciliation of income.
23	Treasury Services (Liberata)	Housing Benefit	Reviewed sample claims, changes and performance.	Substantial	1 recommendation made concerning improving data held in the system
24	Financial Services	Main Accounting	Undertook transaction testing on the financial system and reviewed budgetary control measures.	Substantial	No further actions required
25	Customer Services (Liberata)	Income Collection	Reviewed income collection processes in light of withdrawal of cash collection service	Full	No further actions required

26	Human Resources	Payroll	Reviewed sample employees pay and overtime claims and accuracy of data held	Substantial	5 recommendations made to improve payroll controls.
27	Corporate	Tendering & Contracts	Monitoring of tendering process by IA	N/A	No further actions required
28	Financial Services	PEARL	Service recharge checks by IA	N/A	No further actions required
29	Financial Services	Client Function	Reviewed the management and oversight of the contract arrangement with Liberata.	Substantial	No further action required
30	Human Resources	Staff Allowances	Examined qualification related expenses and associated travel and subsistence claims	Substantial	1 recommendation made to update the learning and development policy.
31	Financial Services	Creditors and Purchasing	Reviewed ordering and invoice payment arrangements	Substantial	1 recommendation regarding encryption
32	ICT Services	Service Governance	See below	Substantial	See below
33	ICT Services	Cyber Security	See below	Substantial	See below
34	ICT Services	Asset Management	See below	Substantial	See below

Classifications

At the conclusion of each audit an overall opinion is given on the level of assurance which it is considered is provided by the controls in place within the audited system. The following classification of assurance levels has been adopted:

Level	Definition
1. Full Assurance	The controls appear to be consistently applied.
2. Substantial Assurance	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
3. Limited Assurance	The level of non-compliance identified places the system objectives at risk.
4. None	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

Contract Audit

Internal Audit carries out a final review of all building and construction contracts over the value of £50,000 prior to the final valuation certificate being issued to the Contractor by Liberata Property Services. This is to ensure accuracy and that correct monitoring of the contract has taken place in line with Contract Procedure Rules.

Pendle Leisure Trust

Pendle Leisure Trust relies on the grant funding provided from the Council each year to finance its services. Internal Audit as a consulting engagement undertake an annual review of an aspect of the Trust's financial arrangements to ensure that activities are being governed efficiently, effectively and economically. During 2017-18, Internal Audit undertook a review of the Trust's Activo Membership scheme and made four recommendations to improve working procedures and record keeping.

Computer Audit - Mersey Internal Audit Agency (MIAA)

Mersey Internal Audit Agency performed 3 computer audit review during the year. The area audited included;

- **Service Governance.** The overall objective of the audit was to provide assurance on the controls established in respect of the governance of IT, from strategic definition to operational delivery, through a process of evaluating IT needs, directing projects and activities, and evaluating and monitoring performance and compliance. This review was given "Substantial Assurance" and 3 recommendations were made to improve controls.
- **ICT Asset Management.** The objective of the review was to provide an opinion on the level and effectiveness of asset management controls operated by the Council and it's IT service provider. This review was given "Substantial Assurance" and 2 recommendations were made to improve controls.
- **Cyber Security.** The overall objective of the audit was to provide assurance on the controls established by management and reported on by their IT service provider to prevent, or minimise the impact of, cyber related attacks and to identify opportunities for improvement, where appropriate. This review was given "Substantial Assurance" and 3 recommendations were made to improve controls.

Follow up Work

Once recommendations have been agreed with Management and an implementation timetable set, the action is recorded in the Internal Audit Recommendations Database (IARD). The IARD is reviewed quarterly with Management and the steps being taken to implement the recommendation are recorded. The IARD is reported to the Accounts & Audit Committee each time it convenes and a full explanation from Management on areas that are not implemented can be requested.

Fraud

Whilst it is not the primary role of Internal Audit to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to mitigate the risk of fraud from arising. It must be noted that Internal Audit processes alone cannot guarantee that fraud or corruption will be detected. Internal Audit will carry out additional checks to determine review fraud prevention

controls and detection processes put in place by management. Internal Audit has reported periodically to the Accounts and Audit Committee information around Housing Benefit related fraud. There were no instances of internal fraud during the year.

Counter fraud policies were refreshed during the year and shared with all staff and a fraud risk assessment was also carried out against CIPFA's Fighting Fraud Locally 2016-19 to identify areas for improvement. The action plan was shared at Accounts and Audit Committee.

Internal Audit continued to monitor work around performed around the National Fraud Initiative (NFI). The overall responsibility for this exercise has now passed from the Audit Commission to the Cabinet Office. Data sets are supplied when requested and matches investigated as required.

Acknowledgements

Thanks are due to all, Management Team, Liberata Management and staff for their assistance and co-operation during the audits undertaken by the Unit last year and to the Accounts and Audit Committee for providing the oversight.

APPENDICES:

Appendix A - Total internal audit time – 2017/18

Appendix B – Quality Assurance

Appendix A - Total Internal Audit Resource - 2017-18				
	Actual 2016/17	Planned 2017/18	Actual 2017/18	Variation
Total Available Days	572	522	510	-12
Leave/Absence	84	88	84	-4
Exams/Training	12.2	16	13	-3
Audit Management	50	40	50	10
Administration and Non Audit	32.7	30	30.6	0.6
Total Rechargeable Days	393.1	348	332.4	-15.6
Programme Audits	375.5	327.3	322.4	-4.9
Contingencies/Fraud Work/Investigations	17.6	20	16.4	-3.6
Pendle Leisure Trust	0	12	10	-2
% Productive Audit Days	69%	70%	67%	-3%

Appendix B - Quality Assurance				
	2014/15	2015/16	2016-17	2017/18
Number of Main systems covered	0	0	0	0
Number of other systems not covered	3	3	5	1
Number of reports completed and issued*	36	36	31	20
Number of recommendations made	102	93	69	76
Number of recommendations accepted	102	92	69	74
Number of recommendations not accepted	0	1	0	2
Number of "work in progress" reports*	4	4	7	10
Average Quality Control Score	90.44%	93.24%	96.43%	93.00%

*as at 31st March