



## APPENDIX 1

# Annual Internal Audit Opinion 2018/19

## **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 2018-19 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 maintains control of the issue of the Council's Procurement Cards. This system was reviewed independently in 2017-18 by the Auditor and no independence issues arose, notwithstanding this, there is oversight provided by the Chief Financial Officer. The Audit Manager is also a member of the Information Governance Working Group and provides advice on control and governance matters.

## **Audit Opinion 2018-19**

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 2018/19.

Internal Audit reports on the effectiveness of governance, risk management and internal control arrangements. In giving this opinion, it should be noted that no assurance can be absolute, the Internal Audit Manager has concluded that **substantial assurance** can be taken that arrangements in place to secure governance, risk management and internal control within those areas audited, are suitably designed and applied effectively. This opinion is reflective of the high number of substantial or full assurance opinions provided. 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 member of a professional accountancy body. The Auditor is a part qualified member.

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 fraud, auditing and risk management during the year

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.

The Internal audit service was supplemented with a bought in computer audit resource provided by Mersey Internal Audit Agency (MIAA). In 2018-19, MIAA performed 2 reviews (see below) and follow up work for audits completed in 2017-18.

## **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 measures the performance of Internal Audit. A summary of the performance indicators for 2018/19 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 2018/19, the average score for all questionnaires returned (22/29) was 92.0% satisfaction compared to a Key Performance Indicator (KPI) target of 90%.

### **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). The Internal Audit service was judged as meeting the PSIAS standards in November 2016.

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

## Internal Audit Coverage and output

The Annual Internal Audit Plan for 2018/19 is based upon the second 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 2018-19 was approved by Management Team and the Accounts and Audit Committee in March 2018.

Internal Audit completed 19 audit reports up to the end of March 2018 with a further 10 reports completed in early part of the 2019/20 financial year. 2 reviews were completed by Mersey Internal Audit Agency (MIAA).

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. 2 activities, Corporate Health and Safety and Vehicle and Plant were not reviewed during the year, these are scheduled for review as part of the 2019-20 plan.

The following table captures the level of assurance issued for each review including those that slipped into 2019/20. There were 3 'Limited Assurance' opinions given during the year.

### Summary of Audit work

Audit No.	Service	Report Title	Audit Activity	Audit Opinion	Actions Agreed
1	Financial Services	Creditors & Purchasing	Reviewed ordering and invoice payment arrangements	Substantial	2 recommendations made to improve transparency reporting and controls around the BACS process
2	Legal Services	Insurance-Review	Reviewed the Councils Insurance arrangement and mitigation strategies	Substantial	Recommendation made to improve procedure notes for claims handling
3	Financial Services	Main Accounting System	Undertook transaction testing on the financial system and reviewed budgetary control measures.	Full	No actions required

<b>Audit No.</b>	<b>Service</b>	<b>Report Title</b>	<b>Audit Activity</b>	<b>Audit Opinion</b>	<b>Actions Agreed</b>
4	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
5	Financial Services	Client Function	Reviewed the management and oversight of the contract arrangement with Liberata.	Substantial	Recommendations were made to gain assurance re Liberata's financial position, and around client checks of the performance
6	Financial Services	Procurement	Reviewed processes for monitoring of fuel cards and examined spend	Substantial	1 recommendation made to review the current agreement at the earliest opportunity to achieve best value
7	Financial Services	Periodic Checks	Reviewed reconciliations undertaken by the Accountancy Unit	Substantial	Gave advice on completing reconciliations, no further actions were required.
8	Financial Services	Mobile Phones	Reviewed the provision of mobiles including issue and use by employees	Substantial	6 recommendations were made to update policy, allocation of mobiles, usage and updating of records
9	Legal Services	Land Charges	Reviewed income records and examined performance of the service	Substantial	Recommendations were made to update reconciliations, system changes, publishing of information
10	Democratic Services	Members & Mayor's Allowances	Examined payment of member allowances including allowances and expenses of the Mayor	Full	No actions required
11	Treasury Services	Post - Council/No.1	Reviewed post procedures including security measures in place and compliance with GDPR	Full	No actions required

<b>Audit No.</b>	<b>Service</b>	<b>Report Title</b>	<b>Audit Activity</b>	<b>Audit Opinion</b>	<b>Actions Agreed</b>
12	Housing, Health and Economic Development	Business Support & Grants	Examined start up and grants for growth grants to businesses	Substantial	1 recommendation was made to check applicants arrears position
13	Housing, Health and Economic Development	Property Improvement Grants	Reviewed a sample of Disabled Facilities Grant applications and tendering procedures	Substantial	4 recommendations were made to reconcile spend, improve budget monitoring, improve KPIs and obtaining customer feedback
14	Housing, Health and Economic Development	Womens Refuge	Examined accommodation records and reconciled income to refuge placements	Substantial	5 recommendations made to improve cash handling, improvement of records, debt recovery and balancing of donations
15	Environmental Services	Fixed Penalty Fines	Reviewed the system for issuing and payment of Fixed Penalty Fines	Full	No actions required
16	Human Resources	Payroll & Establishment	Reviewed sample employees pay and overtime claims and accuracy of data held	Substantial	2 recommendations were made to improve controls
17	Environmental Services	Cleansing Sundry Income	Reviewed the charging of miscellaneous collections and implementation of the garden waste initiative	Substantial	2 recommendations were made to improve controls around record keeping and debt recovery
18	Environmental Services	Cemeteries	Sample record of cemeteries services reviewed and fee collection	Substantial	1 recommendation made to improve debt recovery
19	Planning and Building Control and Licensing	Planning Fees	Reviewed a sample of Planning applications and checked fees for proper accounting	Full	No actions required

<b>Audit No.</b>	<b>Service</b>	<b>Report Title</b>	<b>Audit Activity</b>	<b>Audit Opinion</b>	<b>Actions Agreed</b>
20	Planning and Building Control and Licensing	Licensing	Examined licensing income and processes in place to account for income accurately	Substantial	No actions required
21	Planning and Building Control and Licensing	Hackneys and Private Hire	Reviewed Taxi Administration, ensuring DBS checks are in place and examined enforcement procedures	Substantial	No actions required
22	Corporate	Uniform (Idox) review	See below	Limited	See below
23	Corporate	EU General Data Protection Regulations	See below	Limited	See below
24	Property Services	Liberata - Markets	Examine market arrears monitoring, collection of rents and administration of tenancies	Substantial	Recommendations were made to improve tenancy agreements, arrears collection and record keeping
25	Treasury Services	Liberata - Sundry Debtors	Examined procedures relating to collection of sundry income and reviewed write off processes	Limited	14 recommendations made, covering inconsistent practices including lapses in prompt debt recovery being taken and write-off procedures incorrectly applied
26	Treasury Services	Liberata - Housing Benefits	Reviewed sample claims, changes, performance of the service and fraud and overpayment processes.	Substantial	1 recommendation made around monitoring of fraud referrals
27	Customer Services	Liberata - Income & Reconciliation	Reviewed income collection processes in light of withdrawal of cash collection service	Substantial	1 recommendation made to examine system controls around the new web based payment system



<b>Audit No.</b>	<b>Service</b>	<b>Report Title</b>	<b>Audit Activity</b>	<b>Audit Opinion</b>	<b>Actions Agreed</b>
28	Treasury Services	Liberata - Council Tax	Examined procedures relating to collection of council tax	Substantial	2 recommendations made to ensure timely reviews are carried out and around write-offs
29	Treasury Services	Liberata - NNDR	Examined procedures relating to collection of NNDR	Substantial	1 recommendation made to review properties in receipt of charitable relief

### **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:

<b>Level</b>	<b>Definition</b>
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 undertakes an annual review of an aspect of the Trust's financial arrangements to ensure that activities are being governed efficiently, effectively and economically. A review of an aspect of the Trust's activity was not carried out in 2018-19, albeit one is scheduled within the plan for 2019-20.

## **Computer Audit - Mersey Internal Audit Agency (MIAA)**

Mersey Internal Audit Agency were tasked with 2 reviews during the year. The areas audited included;

### EU General Data Protection Regulations

- The review focused the Council's compliance and readiness with the EU's General Data Protection Regulations (GDPR) and Data Protection Act 2018. The review identified a number of areas of good practice and compliance with the requirements of the GDPR however gaps were noted. This review has been given "Limited Assurance" and a series of recommendations made to improve controls and strengthen compliance with the regulations. Due to the complex nature of the audit findings the report has been considered by the Information Governance Working Group and the Corporate Governance Group and the final draft agreed towards the end of July 2019.

### Critical Application Review – Uniform (Idox)

- This critical application review covered user access controls, access to data stores and integrity of data, compliance with regulations and resilience and continuity of service. Weaknesses in controls were highlighted around password and data security and integrity which have require corrective action by Management albeit reliance on the software vendor making changes to the systems configuration. This review was given "Limited Assurance" and 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. Follow up work also included Mersey Internal Audit Agency (MIAA) reviewing the implementation of recommendations made as part of their computer audit work on Service Governance, IT Asset Management and Cyber Security in 2017-18.

## **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 was one incident that was investigated by Internal Audit during the year, the result of the investigation was reported in March 2019.

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 – 2018/19

Appendix B – Quality Assurance

<b>Appendix A - Total Internal Audit Resource - 2018-19</b>				
	Actual 2017/18	Planned 2018/19	Actual 2018/19	Variation 2018/19
Total Available Days	510	535	535	0
Leave/Absence	84	86	81	-5
Exams/Training	13	16	16	0
Audit Management	50	45	57	12
Administration and Non Audit	30.6	30	30.7	0.7
Total Rechargeable Days	332.4	358	350.3	-7.7
Programme Audits	322.4	306	328	22
Contingencies/Fraud Work/Investigations	16.4	40	30	-10
Pendle Leisure Trust	10	12	0	-12
% Productive Audit Days	67%	67%	65%	-2%

<b>Appendix B - Quality Assurance</b>				
	2015/16	2016-17	2017/18	2018-19
Number of Main systems not covered	0	0	0	0
Number of other systems not covered	3	5	1	3
Number of reports completed and issued*	36	31	20	19
Number of recommendations made**	93	69	76	90
Number of recommendations accepted	92	69	74	89
Number of recommendations not accepted	1	0	2	1
Number of "work in progress" reports*	4	7	10	10
Average Quality Control Score	93.24%	96.43%	93.00%	92.00%

\*as at 31st March

\*\*includes Priority 1, 2, 3 recommendations