

INTERNAL AUDIT PROGRESS REPORT

Cabinet Member Finance, Procurement, Revenues & Benefits

Date: 22 July 2021

Agenda Item:

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Key Decision? NO

Local Ward Members If any Wards are particularly affected insert the name of the Ward Members and their Ward. Ensure that the Ward Members have been consulted.



AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

- 1.1 This report comprises Internal Audit's progress report for the period to 30 June 2021 (to Quarter 1) (**Appendix 1**).
- 1.2 Quarter 1 audit work performance has identified that 6% of the Audit Plan has been completed against profiled completion of 22.5%. Historically quarter 1 coverage is low, attributable factors include; reduced availability of staff (final accounts, Covid related work, other work priorities, staff leave etc.) and implementing new system processes/ changes delaying audit commencement.
- 1.3 In addition, during the quarter, staff resources were depleted due to the departure of the Head of Audit, the Senior Auditor and the Trainee Audit Assistant. The Audit Manager commenced in post in June 21 and has reviewed the Audit Plan.
- 1.4 To ensure completion of the planned audit work for 2021/2022 a procurement exercise is underway to appoint both a specialist IT Auditor and a general audit contractor to support the current Internal Audit team.
- 1.5 The Audit Manager will continue to review current work plans to ensure completion of the 2021/2022 Audit Plan.

2. Recommendations

- 2.1 To note the attached report.

3. Background

- 3.1 The Accounts and Audit Regulations require councils to undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account Public Sector Internal Audit Standards.
- 3.2 Internal Audit's progress report for the period to Quarter 1 is detailed at **Appendix 1** for members to consider.

| | |
|---------------------|-----|
| Alternative Options | N/A |
|---------------------|-----|

| | |
|--------------|-----|
| Consultation | N/A |
|--------------|-----|

| | |
|--|--|
| Financial Implications | The audit service has been delivered within budget during the year. |
| Contribution to the Delivery of the Strategic Plan | Delivery of the audit plan contributes to all aspects of the Strategic Plan, but notably 'a good Council'. |
| Equality, Diversity and Human Rights Implications | No equality, diversity or human rights implications arising from this report. |
| Crime & Safety Issues | None arising. |
| Environmental Impact | None arising. |
| GDPR/Privacy Impact Assessment | None required. |

| | Risk Description | How We Manage It | Severity of Risk (RYG) |
|---|---|--|---|
| A | Significant / high risk systems of internal control fail and go un-addressed. | The audit planning process ensures that audit resources are directed to areas of most significance / highest risk. | Likelihood – Green Impact - Yellow Severity of risk - Green (tolerable) |
| B | | | |
| C | | | |
| D | | | |
| E | | | |

Background documents
Audit & Member Standards Committee routine reports, internal audit reports

Relevant web links

Appendix 1

Internal Audit Progress Report (To Quarter 1)
July 2021



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If you have any questions about this report, please contact Andrew Wood, Audit Manager andrew.wood@lichfielddc.gov.uk

The matters raised in this report are the ones that came to our attention during our internal audit work. While every care has been taken to make sure the information is as accurate as possible, internal audit has only been able to base these findings on the information and documentation provided. Consequently, no complete guarantee can be given that this report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be needed. This report was produced solely for the use and benefit of Lichfield District Council. The council accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification.

01 INTRODUCTION

BACKGROUND

This report summarises internal audit activity and performance for the period to 30 June 2021.

SCOPE AND PURPOSE OF INTERNAL AUDIT

The Accounts and Audit Regulations require councils to undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.

This progress report and opinion forms part of the framework of assurances that is received by the council and should be used to help inform the annual governance statement. Internal audit also has an independent and objective consultancy role to help managers improve risk management, governance and control.

Internal audit's professional responsibilities as internal auditors are set out within Public Sector Internal Audit Standards (PSIAS) produced by the Internal Audit Standards Advisory Board.

ACKNOWLEDGEMENTS

Internal audit is grateful to the heads of service, service managers and other staff throughout the council for their help during the period.

02 INTERNAL AUDIT WORK UNDERTAKEN

The internal audit plan for 2021/22 was approved by the Audit & Member Standards Committee in March 2021. The plan is for a total of 16 audits.

Much of quarter one work has been centred on completing committee reports, risk management work and supporting elections staff during the May 21 elections. Performance indicators (Section 05) show there is a reduced coverage of the plan during quarter one (6% achieved against a profiled 22.5%) Historically quarter 1 coverage is low, attributable factors include reduced availability of staff (final accounts, Covid related work, other work priorities, staff leave etc.) and implementing new system processes/ changes delaying audit commencement. In addition during the quarter staff resources were depleted due to the departure of the Head of Audit, the Senior Auditor and the Trainee Audit Assistant. The Audit Manager commenced in post in June 21 and has reviewed the Audit Plan. To ensure completion of the planned audit work for 2021/2022 a procurement exercise is underway to appoint both a specialist IT Auditor and a general audit contractor to support the current Internal Audit team. Performance against internal audits KPI's is at section 05.

The audit findings of each review, together with recommendations for action and the management response are set out in our detailed reports. A summary of the reports we have issued during the period is included at **Appendix 01**.

03 OPINION

SCOPE OF THE OPINION

In giving an opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the council is a reasonable assurance that there are no major

weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

In arriving at an opinion, following matters have been taken into account:

- The outcomes of all audit activity undertaken during the period.
- The effects of any material changes in the organisation's objectives or activities.
- Whether or not any limitations have been placed on the scope of internal audit.
- Whether there have been any resource constraints imposed upon us which may have impinged our ability to meet the full internal audit needs of the organisation.
- What proportion of the organisation's internal audit needs have been covered to date.

INTERNAL AUDIT OPINION

On the basis of audit work completed, our opinion on the council's framework of governance, risk management and internal control is reasonable in its overall design and effectiveness. Certain weaknesses and exceptions were highlighted by our audit work. These matters have been discussed with management, to whom we have made recommendations. All of these have been, or are in the process of being addressed.

SPECIFIC ISSUES

No specific issues have been highlighted during the period.

FRAUD & IRREGULARITY

No matters of fraud or irregularity have been reported during the year. Also see the fraud update on this Committee's agenda.

CONSULTANCY & ADVICE

The audit team may be requested by managers to undertake consultancy and advice on governance, risk management and internal control matters. During the period to 30 June 2021, the following was undertaken:

- Attending project board for payroll and new finance system.
- Review of draft Contract Procedure Rules.
- Attending elections core meeting.
- NFI data match investigations.

04 FOLLOW UP

Internal audit follow up all high priority actions and those arising from no and limited overall assurance, manager's confirmation applies to the rest. There were five high priority recommendations due to be followed up during the period, of which one was implemented (see KPI section 05).

Of those receiving a no or limited assurance opinion which require follow up, a summary of progress to date on these audits is given at Appendix 01.

Currently there are 92 outstanding recommendations at 30 June 2021, shown in the table below:

| Action Priority Rating | Total Open Actions at 1 April 2021 | Actions Raised Since April 2021 | Total Overall | Total Closed out at 30 June 2021 | Total Open at 30 June 2021 | % Implemented in the period |
|------------------------|------------------------------------|---------------------------------|---------------|----------------------------------|----------------------------|-----------------------------|
| High | 10 | 0 | 10 | 1 | 9 | 10% |
| Medium | 67 | 7 | 74 | 10 | 64 | 14% |
| Low | 18 | 2 | 20 | 1 | 19 | 5% |

05 PERFORMANCE OF INTERNAL AUDIT

Compliance with professional standards

We employ a risk-based approach in planning and conducting our audit assignments. Our work has been performed in accordance with PSIAS.

Conflicts of interest

There have been no instances during the year which have impacted on our independence that have led us to declare any interest.

Performance of internal audit

Internal audit quality assurance

To make sure the quality of the work we perform, we have a programme of quality measures which includes:

- Supervision of staff conducting audit work.
- Review of files of working papers and reports by managers.
- Regular meetings of our networking groups, which issue technical and sector updates.

Performance Measures

- Complete 90% (profiled 22.5%) of the audit plan – 6%
- 100% Draft reports issued within 6 weeks of start date – none issued
- 100% Closure meetings conducted within 5 days of completion of audit work – 100%
- 100% draft reports to be issued within 10 working days of closure meeting – none issued
- 100% of all high priority actions are implemented at follow up – 20%
- All no and limited assurance reports have a revised assurance rating of substantial or reasonable on follow up - 100%
- Achieve an average customer satisfaction score of 4 or more – 100%
- Added value – Annual measure

APPENDIX 01: SUMMARY OF INTERNAL AUDIT WORK UNDERTAKEN

| Assurance | Audit | Scope | Planned Quarter | Assurance Summary | Assurance Opinion |
|------------------------|--------------------|---|-----------------|-------------------|-------------------|
| Core Financial Systems | Debtors | Risk based review covering the adequacy and effectiveness of controls around debtors, including account set up / amendment, invoice requisitioning, invoicing, fees and charges and recovery. To accommodate the change to the new Civica Financials Live financial system. | Q3 | | |
| | Assets & Inventory | Risk based review covering the adequacy and effectiveness of controls regarding the Council's assets and inventory. | Q2 | | |
| | Grants | Risk based review of the adequacy of controls surrounding grants awarded to the authority. To include compliance with accountable body agreements including arrangements for third party compliance where appropriate. | Q2 | | |
| | Council Tax | Risk based review of council tax including assurance over the adequacy of controls around the maintenance of systems recording taxable properties and liable persons, billing, discounts and reliefs, collection, refunds and write offs. | Q4 | | |

| Assurance | Audit | Scope | Planned Quarter | Assurance Summary | Assurance Opinion |
|-------------------------------|--------------------------------|--|-----------------|--------------------------|-------------------|
| Strategic & Operational Risks | Strategic Risk Register | Risk based review of the adequacy and effectiveness of the controls in place to mitigate the Council's strategic risks. | Q1-Q4 | | |
| | Pandemic risks | 'Flash' audits of dynamic risks arising from the Council's pandemic response. To include continuity and recovery arrangements, business grants, productivity and performance. | Q1-Q4 | Audit in progress | |
| | Replacement Financial System | Programme assurance based review of the replacement financial system programme to Civica Financials Live. To include income management system replacement. Programme assurance includes programme planning, governance structure and controls, delivery, change management, RAIDD management (Risk, Action, Issue, Decision, Dependency), testing and reporting. | Q1-Q2 | | |
| | Payroll transition | Assurance based review on the effectiveness of payroll controls following the transition from Stafford Borough Council to Stoke City Council, the new payroll agency provider. | Q3 | | |
| | Development Control (Planning) | Risk based review of systems of internal control for planning (using CIPFA control matrices), to include applications, appeals, fee | Q2 | Audit completed to draft | |

| Assurance | Audit | Scope | Planned Quarter | Assurance Summary | Assurance Opinion |
|-------------------------------------|---|---|-----------------|-------------------|-------------------|
| | | management. Audit carried forward from 2020/21. | | | |
| | Shared Services | Risk based review of controls in place for effective delivery of shared services e.g. waste management, legal services, building control, internal audit. | Q1 | Audit in progress | |
| | Elections | Risk based review of elections processes and in particular financial returns. | Q2 | | |
| | Climate Change | Risk based review looking at the Council's preparation to de-carbonisation / climate change agenda. | Q3 | | |
| ICT | TBC | | Q2-4 | | |
| ICT | TBC | | Q2-4 | | |
| Governance, Fraud & Other Assurance | Disabled Facilities Grant | Assurance statement | Q3 | | |
| | Housing Benefit Memorandum of Understanding | Assurance statement to enable the Chief Finance Officer sign off to DWP. | Q3 | | |
| | Counter Fraud | Work to support the mitigation of fraud risk, the provision of fraud awareness training, pro-active fraud exercises and reactive investigations. | Q1-Q4 | Ongoing | |
| | Annual Audit Opinion | Production of the Annual Audit Opinion. | Q2 | | |
| | Management and Planning | Management, planning and assurance reporting to Leadership Team and Audit & Member | Q1-Q4 | Ongoing | |

| Assurance | Audit | Scope | Planned Quarter | Assurance Summary | Assurance Opinion |
|---|------------------------------------|--|-----------------|---|---|
| | | Standards Committee. | | | |
| | Ad hoc / Consultancy / Contingency | Contingency allocation to be utilised upon agreement of the Chief Finance Officer. | Q1-Q4 | Ongoing | |
| | Risk Management | Supporting the Council's risk management systems. | Q1-Q4 | In progress | |
| | Election Support | Support to May 2021 Elections | Q1 | Complete. Auditors provided support to the May 2021 Elections across a number of roles. | |
| Follow up all no and limited assurance reports and all high priority recommendations. | GDPR | Limited Assurance Follow up | Q1 | A third follow up audit has now been undertaken and the full follow up audit report was issued to accountable officers and members of the Committee on 20 May 2021. In summary: Of the 2 outstanding actions (1 high and 1 medium). It can be confirmed that 1 has now been fully implemented with the remaining 1 (1 high) partially implemented. |  Substantial Assurance |
| | Procurement | Limited Assurance Follow up | Q1 | Originally 9 recommendations were made, 8 of which were agreed to be implemented by management. The findings of the follow up review show 5 of the recommendations have been implemented and 3 have been partially implemented. |  Reasonable Assurance |
| | Beacon Park | Limited Assurance Follow up | Q1 | Originally 4 medium risk recommendations were made. The findings of this follow up review show 3 of the recommendations have been implemented, with 1 not implemented but has a due date not until January 2022. |  Reasonable Assurance |

ASSURANCE AND RECOMMENDATION CLASSIFICATIONS

| Overall Audit Assurance Opinion | Definition |
|---------------------------------|---|
| Substantial | There is a sound system of internal control designed to achieve the organisation's objectives. The control processes tested are being consistently applied. |
| Reasonable | While there is a basically sound system of internal control, there are some weaknesses which may put the organisation's objectives in this area at risk. There is a low level of non-compliance with some of the control processes applied. |
| Limited | Weaknesses in the system of internal controls are such as to put the organisation's objectives in this area at risk. There is a moderate level of non-compliance with some of the control processes applied. |
| No | Significant weakness in the design and application of controls mean that no assurance can be given that the organisation will meet its objectives in this area. |

| Priority | Definition |
|---|--|
|  | High priority recommendation representing a fundamental control weakness which exposes the organisation to a high degree of unnecessary risk. |
| | Medium priority recommendation representing a significant control weakness which exposes the organisation to a moderate degree of unnecessary risk. |
| | Low priority (housekeeping) recommendation highlighted opportunities to implement a good or better practice, to add value, improve efficiency or further reduce the organisation's exposure to risk. |