

INTERNAL AUDIT QUARTER 1 PROGRESS REPORT



Cabinet Member for Finance & Commissioning

Date: 21 July 2022
Agenda Item:
Contact Officer: Andrew Wood
Tel Number: 01543 308030
Email: andrew.wood@lichfielddc.gov.uk
Key Decision? NO
Local Ward Members Full Council

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

- 1.1 This report comprises Internal Audit's Quarterly Progress Report for the quarter ending 30 June 2022 (**Appendix 1**).

2. Recommendations

- 2.1 To note Internal Audit's Quarterly Progress Report, including results for the quarter to 30 June 2022.

3. Background

- 3.1 This report comprises Internal Audit's progress report for the period to 30 June 2022 (to Quarter 1) (**Appendix 1**).
- 3.2 Quarter 1 audit work performance has identified that 10% of the Audit Plan has been completed against profiled completion of 22.5%. There have been a number of factors which have impacted on the delivery of audits. Attributable factors include; ongoing completion of audits from the previous year 2021/22, grant assurance work (Test & Trace Support payments, Energy Rebates, Rough Sleeper Initiative and Protect & Vaccinate).
- 3.3 As Committee will be aware and reported in November 2021, we procured both a general auditor (TIAA) and IT auditor services (E-tec). TIAA's contract with the Council ended in March 2022 and we are currently procuring further resources via a NHS Framework Agreement. E-Tec are currently providing a second years IT Audit Plan as agreed by this committee in April 2022. The progress against the current plan is reflected in **Appendix 1**.
- 3.4 The Audit Plan continues to be reviewed and takes into account the maintenance of audit standards and compliance with Public Sector Internal Standards requirements it is anticipated that that we will complete 90% of the plan by 31 March 2023.
- 3.5 Due to the current vacancies and organisational change being undertaken within the Council there is a risk that we will not fully complete the anticipated plan for 2022/23. The Audit Manager will work with senior management and continue to review current work plans to ensure that completion of the audit plan against target is achieved and will provide updates to Committee and liaise with the Assistant Director Finance & Commissioning (Section 151).

Alternative Options	N/A
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Consultation	N/A
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Financial Implications	The audit service has been delivered within budget during the year.
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Approved by Section 151 Officer	Approved
Legal Implications	None
Approved by Monitoring Officer	Approved.
Contribution to the Delivery of the Strategic Plan	Delivery of the audit plan contributes to all aspects of the District Council's Strategic Plan.
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 & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
A Significant / high risk systems of internal control fail and go undressed. Audit Manager	Likelihood: Yellow Impact: Red Severity: Red	The audit planning process ensures that audit resources are directed to areas of most significant /highest risk.	Likelihood: Green Impact: Yellow Severity: Yellow
B Failure to complete the Audit Plan for 2022/23 due to organisational change and management vacancies. Leading to the failure by Audit Manager to provide an audit opinion at the end of financial year.	Likelihood: Yellow Impact: Red Severity: Red	Regular management meetings with Section 151 Officer to discuss plan arrangements. Review of Audit Plan and reporting of material changes to Senior Management and Audit & Member Standards Committee.	Likelihood: Green Impact: Yellow Severity: Yellow

Background documents	Audit Plan and Charter approved by Audit & Member Standards Committee 20 April 2022.
Relevant web links	

Appendix 1

Internal Audit Progress Report (To Quarter 1)
July 2022



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01 Summary of Internal Audit Work Undertaken

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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, re-interpretation, amendment and/or modification.

01 INTRODUCTION

BACKGROUND

This report summarises internal audit activity and performance for the period to 30 June 2022.

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 2022/23 was approved by the Audit & Member Standards Committee in April 2022. The plan is for a total of 20 audits.

Quarter one work has been centred on completing the remaining audits from the 2021/22 audit plan, grant assurance work, committee reports and risk management work. Performance indicators (Section 05) show there is a reduced coverage of the plan during quarter one (10% 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.

The contract with TIAA has now concluded and we are reviewing the current audit resource with the prospect of looking to ensure resources are available using a NHS Framework Agreement.

IT Audit provision is currently being provided by E-Tec Business Services and the planned work is currently in progress as outlined below. 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 period. 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 2022, the following was undertaken:

- Attending homelessness review panel
- Review of changing place agreement
- Review of external funding procedures
- Consultancy on Energy Rebate process
- Test and Trace assurance statement
- Protect and Vaccinate assurance statement
- Beacon Park Investigation Internal Audit Report

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 none were implemented (see KPI section 05).

There were no limited or no assurance audits to follow up during the period.

Currently there are 114 outstanding recommendations at 30 June 2022, shown in the table below:

Action Priority Rating	Total Open Actions at 1 April 2022	Actions Raised Since April 2021	Total Overall	Total Closed out at 30 June 2022	Total Open at 30 June 2022	% Implemented in the period
High	5	0	0	0	5	0%
Medium	68	5	73	0	73	0%
Low	34	4	38	2	36	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 – 10%
- 100% Draft reports issued within 6 weeks of start date -100%
- 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 – 100%
- 100% of all high priority actions are implemented at follow up - 0%
- All no and limited assurance reports have a revised assurance rating of substantial or reasonable on follow up – N/A
- Achieve an average customer satisfaction score of 4 or more – 100% (3 out of 4 CSQ's returned)

APPENDIX 01: SUMMARY OF INTERNAL AUDIT WORK UNDERTAKEN


Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
Core Financial Systems	Procurement	Risk based review covering the adequacy and effectiveness of controls around procurement systems in place across the council, including the work of central Procurement Team and departments.	Q3		
	NNDR	Risk based review of NNDR including assurance over the adequacy of controls around maintenance of systems, recording of data, RV reconciliation and billing/discounts and reliefs.	Q2		
	Housing & Council Tax Benefit	Risk based review of the adequacy of controls surrounding awarding of Housing & Council Tax Benefits to ensure with the correct assessment and awarding of benefit.	Q2		
	Allocations of Awards/ Planning Obligations Section 106	Risk based review of systems in place for the allocation of funding via Section 106 and the compliance with planning obligations.	Q4		
Strategic & Operational Risks	Strategic Risk Register	Risk based review of the adequacy and effectiveness of the controls in place to mitigate the Council's	Q1-Q4		

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
		strategic risks.			
	Project Management – Being a Better Council	Programme assurance based review of project management arrangements in place for the delivery of BABC themes and projects. To review methodology used and controls to ensure project delivery.	Q1-Q4		
	Safeguarding	Risk based review of safeguarding arrangements. To review the controls in place and ensure compliance with these controls. Scoping and brief to be discussed and agreed with Safeguarding lead.	Q2		
	Housing Applications	Risk based review of housing applications. To include the review of applications made and ensuring compliance with agreed controls.	Q3		
	Environmental Health – Food Inspections	Risk based review Environmental Health – Food Inspections. To include the review of compliance with national guidelines and legal requirements. To ensure that appropriate arrangements are in place for the inspection of food premises within the District.	Q3		
	Licensing – ex Taxi (other)	Risk based review of controls in place for effective delivery of Council Licensing arrange	Q4		
	Development Management	Risk based review of Development Management Performance to	Q4		


Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
	Performance	include system based review of new systems.			
	Elections	Risk based review of elections processes and in particular financial returns.	Q1		
	Climate Change	Risk based review looking at the Council's preparation to de-carbonisation / climate change agenda.	Q2		
ICT	Data Protection / GDPR	Risk Based review on Council's Data Protection and GDPR compliance	Q2-4	In progress	
	PCI DSS	Assurance review of PCI DSS compliance			
	IT System Security	Risk based review of Council systems to ensure preparedness and responsiveness to both internal and external threats to the Council's IT infrastructure		In progress	
	IT Disaster Recovery	Risk based of Council's Disaster Recovery arrangements			
Governance, Fraud & Other Assurance	Disabled Facilities Grant	Assurance statement	Q3		
	Covid Grant assurance	Assurance work on Covid-19 grants	Q1 and Q2	<p>The system for payment of Covid-19 related business grants was found to be robust. A number of good practice areas were noted:</p> <ul style="list-style-type: none"> For each grant a policy was developed which was available to applicants. The policy included the background for the grant with the link to government guidance and eligibility criteria. 	 Substantial Assurance No recommendations

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				<ul style="list-style-type: none"> • Grant schemes were published on the Council's website, social media and direct correspondence to businesses. • Application was via an on-line form which included the required information to confirm eligibility. The application forms were downloaded into a spreadsheet for monitoring and processing. • Evidence was provided, such as financial accounts to verify loss of income/ profit. • Internal checks of eligibility were undertaken against the Council's business rates system to verify rateable values. • Checks were undertaken by the Economic Development Officer and also the Business Analyst (Finance). Anti-fraud/ corruption measures were undertaken using 'Spotlight' the government tool used to assess grant applicants. Internal assurance/ pass/ fail checks were undertaken. • For the High Street Business Growth Grant, a confirmation of the grant awarded was sent to the applicant. The letter was signed by the applicant as agreeing to the terms and conditions. • A grant checklist (High Street Business Growth) was completed and signed as approved by the Interim Director – Economic Growth and Development. 	

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				<p>Of a random sample of 3 grants awarded, testing noted the following:</p> <ul style="list-style-type: none"> - Additional Restrictions Grant (High Street Business Growth Grant). A grant application had been revised and additional money had been requested towards the project. A revised grant checklist had not been completed to confirm approval by the Interim Director, Economic Growth and Development. In addition, an invoice had not been received (one month) after the second payment had been made. The invoice confirms that the grant money had been spent in line with the project application. - Additional Restrictions Grant (greater than 51,001). No exceptions. - Additional Restrictions Grant (Leisure and direct supply chain). No exceptions. 	
	Housing Benefit Memorandum of Understanding	Assurance statement to enable the Chief Finance Officer sign off to DWP.	Q4	Work completed and assurance statement submitted	Complete
	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	Management, planning and	Q1-Q4	Ongoing	

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
	Planning	assurance reporting to Leadership Team and Audit & Member 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	
	NFI	Compliance with and review of data matches	Q1- Q4	In progress	
Additional Assurance Reviews requested by management	Protect and Vaccinate	Assurance review to enable sign off by the Chief Executive and S151 Officer		Work completed and assurance statement submitted	Complete
	Test and Trace	Assurance review to enable sign off by the Chief Executive		Work completed and assurance statement submitted	Complete
21/22 Planned Audits finalised	Payroll	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.		<p>Overall the audit confirmed that payroll transactions at the Council are being processed accurately, efficiently and with the correct authorisation.</p> <p>The following areas of good practice were identified during the course of the audit:</p> <ul style="list-style-type: none"> • Systems validations are in place to ensure all input data is complete. • Records of hours worked and allowances paid are properly certified prior to payment. • BACS payments are authorised by Finance. • There is adequate budget monitoring by Finance and budget holders. 	 <p>H-0 M-3 L-2</p> <p>Reasonable Assurance</p>

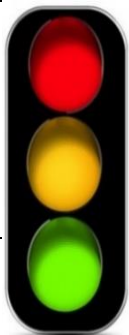
Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				<ul style="list-style-type: none"> • Robust access permissions have been established to prevent unauthorised access within the system. • Via the SLA with SCC adequate contingency arrangements are in place to ensure continuity of payroll. • The Council maintains a Retention of Documents Schedule which clearly lays out both the period of retention and the reason why, i.e. Legal, Audit, Commercial. <p>Some areas for improvement were identified. The checklists which provide guidance for payroll processing tasks require updating with reference to the new system. Variations to payroll data are processed by the Senior HR Advisor who also checks and confirms all transactions have been correctly actioned, no other officers are involved to provide segregation. Additional training should be provided to other HR officers in the absence of the Senior HR Advisor. The View Leaver Report run within MyView did not list all leavers, this could be a software or training issue. Implementation of the recommendations in the action plan will enhance arrangements and address these risks.</p>	

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
	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.		<p>The Debtors System is designed with controls in place to mitigate the major risks and which were found to be adequate and effective. Civica Financials was introduced in October 2021. Training was provided to staff and a suite of guidance notes developed. Testing noted that invoices raised were agreed back to source documentation, including Service Level Agreements, Leases, Price lists etc. Invoices, credit notes and refunds were independently requested and processed by the Corporate Recovery Team. There had been no write offs processed since October 2021. Income received through the E-payments system had been correctly and promptly allocated against the debt. A review of the suspense account noted a current balance of £1220.23 relating to 5 recent receipts dating between September 2021 and March 2022. Debtor reconciliations are completed automatically within the Civica system.</p> <p>Some weaknesses in control were found. A Corporate Debt Policy is in draft format and requires review and finalisation. Due to Covid and related tasks, such as grant administration, debt recovery action has been limited. In addition, debt reporting to Managers has not been completed since September 2021. The debtors reconciliation at March 2022 is showing a variance that requires</p>	 <p>H-0 M-3 L-2</p> <p>Reasonable Assurance</p>

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				investigating. Finally from the sample tested, there were some delays in raising invoices after the service/ supply was provided. Implementation of the recommendations in the action plan will enhance arrangements and address these risks.	

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.

	<p>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.</p>
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