



Wyre Borough Council
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Please ask for : Democratic Services
Tel: 01253 887481

Audit Committee Agenda

**Audit Committee meeting on Tuesday, 8 May 2018 at 6.00 pm
in the Civic Centre, Poulton-le-Fylde**

1. **Apologies for absence**

2. **Declarations of interest**

Members will disclose any pecuniary and any other significant interests they may have in relation to the matters under consideration.

3. **Confirmation of minutes** (Pages 1 - 4)

To approve as a correct record Minutes of the last meeting of the Audit Committee held on 13 March 2018

4. **Annual review of Internal Audit Charter** (Pages 5 - 22)

Report of the Head of Finance

5. **Internal Audit Annual Report 2017/18** (Pages 23 - 54)

Report of the Head of Finance

6. **External Audit Annual Audit Fee 2018/19** (Pages 55 - 56)

Letter from the Council's External Auditor (Deloitte)

7. **Time and date of next meeting**

Tuesday 19 June 2018 at 6pm, in the Council Chamber

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Audit Committee Minutes

Minutes of the meeting of the Audit Committee of Wyre Borough Council held on Tuesday 13 March 2018 at the Civic Centre, Poulton-le-Fylde.

Audit Committee members present:

Councillor R Amos	Councillor McKay (Chair)
Councillor Greenhough	Councillor Moon
Councillor Holden	Councillor A Turner
Councillor Ingham	

Apologies for absence: Councillors' E Anderton, Balmain, Barrowclough, Raynor, and Wilson. Councillors B Stephenson and Walmsley were also not present.

Officers present:

C James – Head of Finance/Section 151 Officer
J Billington – Head of Governance
K McLellan – Senior Auditor
R Saunders – Democratic Services and Scrutiny Manager

Non-members present: Amanda Latham – Director KPMG LLP, External Auditor.

Members of the public present: None

AUDIT. 36 DECLARATIONS OF INTEREST

None.

AUDIT. 37 CONFIRMATION OF MINUTES

RESOLVED: that the minutes of the Audit Committee meeting held on 21 November 2017 be confirmed as a correct record.

AUDIT. 38 REVIEW OF AUDIT COMMITTEE'S TERMS OF REFERENCE

The Head of Finance (Section 151 Officer) submitted a report on the annual review of the Committee's terms of reference.

RESOLVED:

1. That the previously agreed terms of reference, attached as Appendix 1 of the report still accurately reflected the role of the Committee and, therefore that no changes be made.

2. That the intention of the Chartered Institute of Public Finance and Accountancy (CIPFA) to review its guidance for local authorities on the terms of reference of audit committees be noted and, that a further report be submitted to the Audit Committee when that guidance had been received

AUDIT. 39 INTERNAL AUDIT STRATEGY AND AUDIT PLAN 2018/19

The Head of Finance (Section 151 Officer) submitted a report.

The Head of Governance explained how the high-level, risk based, strategy had been updated. She also explained how the detailed delivery internal audit plan for 2018/19 had been drawn up, including a series of workshops to identify risks, consider where value could be added to the Council's Business Plan and to prioritise audit reviews. She confirmed that the External Auditor had been given an opportunity to comment on the proposed plan.

RESOLVED: that the [updated] Internal Audit Strategy attached as Appendix 1 of the report and the Annual Audit Plan for the 2018/19 financial-year, attached as Appendix 2 of the report, be approved.

AUDIT. 40 CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2016/17

The External Auditor referred to a letter (published in the agenda) which been sent by KPMG to the Head of Finance as its required annual report on the certification of the claims and returns submitted by the Council.

RESOLVED that the Certification of Claims and Returns Annual Report for 2016/17 be noted.

AUDIT. 41 EXTERNAL AUDIT PLAN 2017/18

The External Auditor submitted a report setting out how KPMG would carry out their audit work on Wyre's activities and performance in 2017/18. She said that the report was in two parts. The first part described both how the auditing of the Council's accounts and financial statements would be undertaken. The second part identified the areas where value for money work assessing the efficiency and effectiveness of the use of resources by the Council would be focused.

RESOLVED that the External Audit Plan 2017/18 be noted.

AUDIT. 42. HOUSING AND COUNCIL TAX BENEFIT CLAIM FOR YEAR ENDED 31 MARCH 2017

The External Auditor referred to a letter (published in the agenda) which had been sent to the Department of Work and Pensions referring to a number of minor housing benefit payment errors which had been identified during the annual audit of the Council's claims and returns. Although a qualification letter had been issued, the matters raised were not serious and of low value as confirmed by further testing. No amendment had been made to the claims submitted or recommendations to the council to improve its processes.

RESOLVED that the contents of the qualification letter relating to the Council's housing benefit subsidy claim for the year ended 31 March 2017 be noted.

AUDIT. 43 PERIODIC PRIVATE DISCUSSION WITH CHIEF INTERNAL AUDITOR

In accordance with the Audit Committee's work programme, the Audit Committee Members were given their annual opportunity to speak in confidence to the Head of Governance at the end of the meeting

The Head of Finance, the Senior Auditor, the External Auditor and the Democratic Services and Scrutiny Manager left the room for this item.

No significant issues were raised or required actions identified.

AUDIT. 44 TIME AND DATE OF NEXT MEETING

Tuesday 8 May 2018 at 6pm in the Council Chamber.

The meeting started at 6pm and finished at 6.40pm

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Report of:	Meeting	Date	Item no.
Head of Finance (s151 Officer)	Audit Committee	8 May 2018	4

Annual Review of Internal Audit Charter
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1. Purpose of report

1.1 Agreement of the Internal Audit Charter for the Audit and Risk Management Section ensuring compliance with the Public Sector Internal Audit Standards (PSIAS) and The Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards.

2. Outcomes

2.1 Compliance with the PSIAS and the checklist contained within CIPFA's Application Note constituting 'proper practices' as defined in the Accounts and Audit Regulations 2015.

3. Recommendations

3.1 That the Audit Committee agrees the Internal Audit Charter and Code of Ethics attached at Appendices 1 and 2.

4. Background

4.1 Specific requirements detailed in the Accounts and Audit Regulations 2015 require a relevant body to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account PSIAS or guidance. From 1 April 2013 the standards and guidance were defined in the PSIAS and CIPFA's Application Note which provides guidance on the specific requirements for local government internal audit organisations.

4.2 The Application Note documents a number of specific local government requirements, including the requirement to complete an extensive checklist for assessing compliance with the PSIAS. One of the mandatory requirements within the checklist is to have an Internal Audit Charter in place.

- 4.3** In addition, The Head of Governance has recently published an Internal Audit Strategy which will assist in demonstrating how the internal audit service will be delivered and developed in accordance with the Internal Audit Charter, council objectives and priorities. This was reported to the Audit Committee in March 2018, together with the annual audit plan.

Key Issues and proposals

- 5.1** The Internal Audit Charter and Code of Ethics are included for approval at Appendices 1 and 2.

Financial and legal implications	
Finance	None arising directly from the report.
Legal	This will ensure good governance and probity.

Other risks / implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with an x.

risks/implications	✓ / x
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	x
climate change	x
data protection	x

report author	telephone no.	Email	date
Jo Billington	01253 887586	joanne.billington@wyre.gov.uk	27.04.2018

List of background papers:		
name of document	date	where available for inspection
None.		

List of appendices

Appendix 1 – Internal Audit Charter

Appendix 2 – PSIAS Code of Ethics

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Internal Audit Charter – May 2018

Introduction

In accordance with the Public Sector Internal Audit Standards (PSIAS), the Internal Audit Charter sets out the purpose, authority and responsibility of the internal audit activity at Wyre Council and includes a Code of Ethics which stipulates the conduct of Internal Auditors within the Audit and Risk Management Section.

The Internal Audit Charter is publicised within the council to ensure that the role of the Audit and Risk Management Section is understood. The Head of Governance is responsible for reviewing the Internal Audit Charter and presenting it to the Head of Finance / S.151 Officer (Senior Management) and the Audit Committee (The Board) at least annually for review and approval.

Definition of Internal Audit

The PSIAS defines internal auditing as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objective’s by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

Mission of Internal Audit

The Internal Audit Charter sets out what the internal audit service aspires to accomplish; which is *‘To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight’*. The core principles listed in the PSIAS, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all principles should be present and operating effectively. Failure to achieve any of the principles would imply that an internal audit function was not as effective as it could be in achieving internal audit’s mission. There are 10 core principles, namely:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;

- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement.

Responsibilities

Internal Audit is a review activity that does not relieve management of its responsibility for ensuring that effective systems of control are in place. The council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the council's objectives. Management shall accept and implement internal audit findings and recommendations, or accept the risk resulting from taking no action.

The Audit and Risk Management Section will assist the council in discharging its corporate governance requirements and ensure that the council's assets and activities have the necessary insurance cover. The Head of Governance is responsible for:

- Developing and maintaining an Internal Audit Strategy demonstrating how the internal audit service will be delivered and developed in accordance with the internal audit charter, council objectives and priorities.
- Developing an annual risk-based audit plan in the context of the strategic direction and based on an understanding of the council's key risks;
- Managing the provision of a complete professional internal audit service that is compliant with the PSIAS and CIPFA's Application Note;
- Providing an annual internal audit opinion to the Audit Committee, based on the outcomes of internal audit work conducted throughout the year;
- Assisting officers and members of the authority in the effective discharge of their responsibilities;
- Examining, evaluating and reporting on the adequacy of internal controls as a contribution to the efficient, effective and economic use of resources;
- Evaluating the effectiveness and contributing to the improvement of risk management processes;
- Ensuring the council's assets and interests are accounted for and safeguarded against losses of all kinds, including those arising from fraud, irregularity, corruption or bribery;

- Maintaining a level of independence and integrity to permit the proper performance of the internal audit function;
- Maintaining an effective working relationship with the External Auditor;
- Attending Audit Committee meetings, contributing to Audit Committee Agendas and advising the Committee on any scope or resource limitations;
- Assessing all matters of potential fraud or irregularity in line with the requirements of the Council's counter fraud policies; and
- Assisting the Audit Committee in achieving effectiveness in the delivery of their terms of reference.

In carrying out their role, staff within the Audit and Risk Management Section are required to comply with the auditing standards as defined in the PSIAS, the Accounts and Audit Regulations 2015 and any other relevant professional guidelines issued by The Institute of Internal Auditors.

In accordance with the Accounts and Audit Regulations 2015, an annual review of the effectiveness of the system of internal control must be carried out. This will be conducted using the checklist within CIPFA's Application Note which will be presented to the Audit Committee in May. The outcome of the exercise will form part of the Annual Governance Statement (AGS). Completing an exercise of this nature also allows greater reliance to be placed on the overall opinion on the effectiveness of the control environment within the Annual Audit Report.

Limitations of Internal Audit Responsibilities

In seeking to discharge the responsibilities of Internal Audit set out above, it should be noted that Internal Audit is not responsible for the following, which are the proper responsibility of management:

- Controlling the risks of the organisation;
- Establishing and maintaining systems of internal control;
- Determining operational policies or procedures; and
- Preventing or detecting fraud and irregularity.

Organisational Roles and Relationships

The PSIAS require that the internal audit charter defines the terms 'Board' and 'Senior Management' in relation to the work of internal audit. For the purpose of internal audit work at Wyre Council, the 'Board' is taken to refer to the Audit Committee and 'Senior Management' is taken to refer to the Head of Finance/S.151 Officer. The PSIAS also refer to the 'Chief Audit Executive' which at Wyre refers to the Head of Governance (Head of Internal Audit).

The council has adopted CIPFA's Statement on the Role of the Chief Financial Officer in Local Government and the associated Statement on the Role of the Head of Internal Audit in Public Service Organisations. These statements set out principles and standards for the Head of Finance/S.151 Officer and the Head of Governance to act in a mutually supportive way in fulfilling their statutory and professional responsibilities.

Internal Audit supports the Chief Executive, as Head of Paid Service, in providing high level assurances related to the council's strategy and governance arrangements and will use the Annual Governance Statement to notify him of any significant issues.

Internal Audit supports the Monitoring Officer in discharging her responsibilities in maintaining high standards of governance, conduct and ethical behaviour.

The Audit and Risk Management Section derives its authority from the Financial Regulations and Financial Procedure Rules, contained within the Council's Constitution.

Relationships with Elected Members, Officers, External Audit and Other Agencies

To ensure good working relationships are established, the Audit and Risk Management Section comply with the 'protocol for officer / member relations' which forms part of the Council's Constitution and involves:

- Working in a spirit of mutual respect and co-operation;
- Maintaining impartiality;
- Being politically neutral;
- Respecting confidentiality;
- Observing the protocols with regards to access to information; and
- Trying to resolve any issues informally and in a spirit of understanding.

The Audit and Risk Management Section will co-operate with External Audit and other review agents to:

- Ensure that duplication of work is minimised;
- Consider joint delivery;
- Determine the level of assurance that can be obtained from their work; and
- Review the reliance that can be placed on that assurance as part of the Head of Governance's overall opinion on the control environment included in the Internal Audit Annual Report.

Independence and Objectivity

Internal Audit operates independently within the council to ensure it is able to appraise and give an impartial opinion on the council's governance arrangements, risks and internal control systems.

To ensure this independence, internal audit operates within a framework that allows unrestricted access to all council officers, senior management and elected members. As such all internal audit staff have the right to access all premises, records and documentation held by the council, its officers and Elected Members and to seek explanation as they see necessary to discharge their duties. This position is supported by the Accounts and Audit Regulations 2015.

The Head of Governance is responsible for identifying and managing any threats to objectivity. In addition, objectivity and independence is further enhanced by the partnership arrangements in place between the council and Lancashire Audit Services (LAS). They are also used to avoid any conflicts of interest that may arise if Internal Audit have undertaken any non-audit activities or have been involved in the system or policy setting.

Reporting Lines

The Audit and Risk Management Team sits within the Performance and Innovation Directorate and although the Head of Governance reports to the Service Director Performance and Innovation, the internal audit activity is organisationally independent in its planning and operation and as such has unrestricted access to the following:

- ◆ Chief Executive;
- ◆ S.151 Officer;
- ◆ Monitoring Officer;
- ◆ Chairman of the Audit Committee;
- ◆ Chairman of the Standards Committee;
- ◆ Members of the Council; and
- ◆ All council employees.

Functionally, the work of internal audit is reported to the Head of Finance/S.151 Officer, Service Directors, Heads of Service, Audit Committee and the External Auditor by means of specific reports. They are also reported in summary form to the Audit Committee via six-monthly monitoring and activity reports.

The Head of Governance and the Chairman of the Audit Committee have mutual, direct access to each other and will liaise as they consider appropriate.

Due Professional Care and Ethics

All Audit and Risk Management staff have an ethical responsibility to work with due professional care. Due professional care is the care and skill that prudent and competent internal auditors will apply in performing their duties; working with competence and diligence, using knowledge and judgement based on experience, training and ability.

Care will be appropriate to the objectives, complexity, nature and materiality of the audit being performed. The auditor will consider various data analysis techniques and be alert to significant risks that may affect the organisation.

The PSIAS contain a Code of Ethics which is mandatory for all internal auditors in the public sector and all internal audit staff at Wyre Council will operate in accordance with this. In addition, internal auditors are also required to comply with the relevant requirements of their own professional bodies and the organisation in which they are employed and have regard to the Committee on Standards of Public Life's 'Seven Principles of Public Life'.

Quality Assurance and Improvement Programme (QAIP)

The PSIAS requires that the Chief Audit Executive (at Wyre this is the Head of Governance) develops and maintains a Quality Assurance and Improvement Programme (QAIP). A QAIP is designed to enable an evaluation, checking that internal audit's activity conforms to the 'Definition of Internal Auditing', the PSIAS and whether Internal Auditors apply the Code of Ethics. The QAIP also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The QAIP must include both internal and external assessments and any improvement plans resulting from the QAIP must be monitored accordingly. The following activities make up the QAIP at Wyre:

Internal Assessment

- 6 monthly progress review of internal audit activity;
- 6 monthly performance appraisals for all audit staff;
- Completion of CIPFA's Application note checklist to assess the Effectiveness of Internal Audit;
- Quality inspections of all audit work by the Head of Governance;
- Annual certification confirming compliance with the Code of Ethics contained within the Audit Charter; and
- Annual feedback from the Chairman of the Audit Committee on the Chief Audit Executive's performance.

External Assessment

- The use of Lancashire County Council's Internal Audit Service to provide independent assurance that controls are adequate and effective in service areas managed by the Chief Audit Executive;
- Annual review and validation of the Annual Governance Statement;

- The External Auditor has an annual opportunity to raise any issues concerning Internal Audit activity with the Audit Committee.
- External assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation in accordance in the PSIAS. Wyre Council has decided that the preferred method of completion would be through the self-assessment contained within CIPFA's Application Note, with an independent validation from a peer review (organised through the Lancashire District Audit Group Meetings). Results will be reported annually to the Audit Committee. The independent assessment and validation of the Lancashire Districts commenced in November 2016, with Wyre's assessment being scheduled for March 2018.

The results of the quality and assurance programme and progress against any improvement plans will be reported in the annual report to the Head of Finance/S.151 Officer and the Audit Committee.

Strategy and Planning

The Head of Governance will develop and maintain an Internal Audit Strategy to demonstrate how the internal audit service will be delivered and developed in accordance with the internal audit charter, council objectives and priorities.

Annually, the Head of Governance will also prepare a risk-based audit plan taking into account the Council's Business Plan, Service Plans, the Medium Term Financial Plan, Strategic and Operational Risk Registers and discussions with the council's Corporate Management Team and the External Auditor (KMPG). The audit plan will outline the assignments to be carried out and include an assessment of the resources required for delivery. The Audit Committee will approve the plan in advance of the financial year.

To reflect any changing priorities or emerging risks, the audit plan will be constantly reviewed with a provision for contingencies being included accordingly. Progress in relation to the plan will be reported to the Audit Committee on a six monthly basis.

Resourcing and Staffing

The Head of Governance (Chief Audit Executive) will hold a full, professional qualification, defined as CCAB, CMIIA or equivalent professional membership and adhere to the professional values and the Code of Ethics. The Head of Governance will have sufficient skills, experience and competencies to work with the Head of Finance/S.151 Officer and the Audit Committee to influence the risk management, governance and internal control of the council.

The Head of Governance is responsible for ensuring that Internal Audit are suitably resourced in order to achieve its overall mission and will aim to maintain a suitable mix of experienced and qualified staff. To assist Wyre Council in meeting these requirements, the internal audit service is supplemented by the use of an external audit provider, Lancashire Audit Service (LAS) who are part of Lancashire County Council. This organisation is required to comply with PSIAS.

Individual training needs are established and agreed through the council's Performance Appraisal process along with the most cost effective way of meeting those needs. As a professional service, staff are expected to actively participate in formal Continuing Professional Development (CPD) schemes.

Once a year, the Audit Committee will have the opportunity to attend two scheduled private discussions, one with the council's External Auditors and the other with the Head of Governance. Following on from these discussions, feedback on the Head of Governance's performance is provided by the Chairman of the Audit Committee to the Service Director Performance and Innovation prior to the Head of Governance's annual performance appraisal taking place.

Scope of Internal Audit Work

Using a systematic, disciplined and risk-based approach, the scope of internal audit work covers all of the council's governance arrangements, procedures for ensuring the effective management of all significant risks and ensuring regularity in all its financial areas, including value for money.

It allows for unrestricted coverage of the authority's activities and unrestricted access to all records, personnel, property and assets deemed necessary in the course of an engagement. Such access shall be granted on demand and is not subject to advance notice. There are no limitations placed upon the scope of internal audit work. Internal audit has the right to request and receive explanations from all employees or Elected Members concerning any matter under consideration.

The scope of internal audit work extends to services provided through partnership arrangements. The Head of Governance at Wyre Council should decide, in consultation with all parties, whether internal audit staff should conduct the work to derive the required assurance or rely on the assurances provided by others.

If the Head of Governance or those charged with governance consider that the level of internal audit resources in any way limits the scope of internal audit work, or prejudices the ability of internal audit to deliver a service consistent with the definition of internal audit, they should advise the Audit Committee immediately.

Internal audits are not limited to financial systems or records, but extend to all the activities of the council as this reflects the control environment and the governance arrangements in place. The Audit and Risk Management Section will undertake the following activities as and when required:

- Promote appropriate ethics and values within the organisation;
- Assess and make appropriate recommendations to improve the organisation's governance processes and monitor progress made against governance actions;
- Review compliance with laws, regulations, council policies, the Financial Regulations and Financial Procedure Rules and contracts;

- Review compliance with the Council's Constitution;
- Undertake transaction testing to provide assurance as to the accuracy of processing;
- Perform Computer Audit and Contract Audit;
- Undertake proactive and reactive management of the council's insurance portfolio, linked to risk;
- Investigate suspected fraud, bribery and corruption (not including Benefit Fraud Investigation work);
- Embed risk management – including the identification and assessment of significant risks, risk responses and communication of relevant risk information to enable staff and management and the board to carry out their responsibilities;
- Carry out value for money studies; and
- Verify performance information and published national and local Indicators.

Consultancy work

Internal audit may act in a consulting role to review controls within existing systems and those under development to give advice and assistance when required, without assuming management responsibility. A contingency will be made in the internal audit plan to support management in this way.

Prior to accepting any additional consultancy work not already included in the internal audit plan, the Head of Governance will consider the effect this would have on the completion of the assurance work. In accordance with PSIAS, approval will be obtained from the Audit Committee for any consultancy work requested, prior to accepting the engagement.

Engagement planning

For each engagement, a Terms of Reference (TOR) will be prepared and agreed with relevant managers. The TOR will contain details of the risks relevant to the activity under review, together with the objectives, scope and timing of the audit assignment, resource and reporting requirements.

Performing the engagement

During each engagement, Internal Audit will identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives and to support the recommendations made and the overall conclusion. The draft report and supporting evidence will be reviewed by the Head of Governance to ensure objectives have been achieved and quality assured. All evidence obtained will be documented and

securely retained in accordance with the council's Storage and Retention Policy and access to this will be controlled.

Communicating results

Following the conclusion of each engagement, a formal report detailing the findings and recommendations / action plan will be prepared by the Audit and Risk Management team and issued by the Head of Governance.

As part of Internal Audit's Quality Assurance and Improvement Programme, a 4:4:2 timescale is applied when conducting audit work and drafting and finalising audit reports. The timescales apply as follows;

- 4 weeks from the commencement of the audit fieldwork, a draft report will be issued;
- 4 weeks from the issue of a draft report, a management response and completed action plan will be received; and
- 2 weeks from receiving the response and action plan, the report will be issued as a 'final' version.

The reports are distributed as follows;

- Managers receive a final copy of the report with an agreed action plan, following confirmation of the draft report's factual accuracy. The action plan details responsibilities for action, the timetable and priorities. Whilst management are responsible for the implementation of agreed actions, follow-up work will be performed by Internal Audit whereby a sample of Level 1-3 recommendations are reviewed to ensure actions are being progressed. The Audit Committee will be advised of any delays or failure to implement agreed actions.
- The appropriate Service Director, the Audit Committee and the council's External Auditor receive copies of the final reports. A copy is also published on the council's intranet.
- The Audit Committee receives six-monthly updates on audit work performed and an executive summary of findings / recommendations made, highlighting any key issues arising from this work.
- At each meeting, the Committee have the opportunity to discuss any of the audit reports that have been issued since the previous meeting. Officers may be asked to attend the Audit Committee meeting to address any questions raised by the members.

Fraud, Bribery and Corruption

Managing the risk of fraud, bribery and corruption is vital to the success of the council in achieving its corporate objectives. The Audit and Risk Management Section will assist management in the effective discharge of this duty. Audit procedures alone, even when performed with due care and professionalism cannot guarantee that a

system is 100% risk free, nor that all incidents of fraud, bribery and corruption will be detected and investigated.

The Audit and Risk Management Section is not solely responsible for the prevention or detection of fraud, bribery and corruption. It will, however, remain alert to risk and exposures both internal and external to the organisation. Close involvement with the national anti-fraud agencies and participation in the National Fraud Initiative will assist this process.

Any evidence or suspicion of an irregularity regarding council funds, property or any other asset or interest should be reported immediately using the Whistleblowing Policy. The council is committed to the highest possible standards of openness, probity and accountability, and encourages all its Elected Members, employees, partners and contractors to voice their concerns without fear of reprisal.

The Audit and Risk Management Section will lead or assist in the development, maintenance and delivery of training associated with the effectiveness of policies that contribute towards sound corporate governance, as detailed in the council's Annual Governance Statement e.g. Whistle Blowing Policy, Anti-Fraud, Bribery and Corruption Policy, Officer's Gifts, Hospitality and Interests and the Money Laundering Policy.

Public Sector Internal Audit Standards – Code of Ethics

Introduction

The PSIAS contain a Code of Ethics (the Code) which is mandatory for all internal auditors in the public sector. In addition, internal auditors are also required to comply with the relevant requirements of their own professional bodies and the organisation in which they are employed.

Purpose

The purpose of these ethics is to promote an ethical, professional culture in internal auditing. Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's 'Seven Principles of Public Life'. Namely;

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

The Head of Governance at Wyre Council will ensure that auditors are regularly reminded of their ethical responsibilities as part of the performance appraisal process. Auditors will be asked to declare annually any personal interests and certify that they understand and will comply with the requirements of the Code.

Applicability and Enforcement

The Code applies to both individuals and entities that provide internal auditing services including the Lancashire Audit Service. For members of the Institute of Internal Auditors (IIA), breaches of the Code shall be evaluated and administered according to the IIA Disciplinary Procedures. Disciplinary procedures of other professional bodies e.g. CIPFA and employing organisations may also apply to breaches of the Code.

Fundamental Principles

Internal auditors are expected to apply and uphold the following four principles:

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Internal Auditors:

- Shall perform their work with honesty, diligence and responsibility;
- Shall observe the law and make disclosure as required by the law and their professions;
- Shall not knowingly be part of any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation; and
- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2. Objectivity

Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Internal Auditors:

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Shall not accept anything that may impair or be presumed to impair their professional judgement; and
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Internal Auditors:

- Shall be prudent in the use and protection of information acquired in the course of their duties; and
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4. Competency

Internal Auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Internal Auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills and experience;
- Shall perform internal auditing services in accordance with the Public Sector Internal Audit Standards; and
- Shall continually improve their proficiency and effectiveness and quality of their services.

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Report of:	Meeting	Date	Item no.
Head of Finance (Section 151 Officer)	Audit Committee	8 May 2018	5

Internal Audit Annual Report 2017/18

1. Purpose of report

1.1 To approve the Internal Audit Annual Report for 2017/18 and review progress in relation to risk management activity.

2. Outcomes

2.1 Effective leadership of audit and governance issues allowing the Council to demonstrate that arrangements are in place to maintain a sound system of internal control.

3. Recommendation/s

3.1 Members are asked to note the Internal Audit Annual Report attached at Appendix 1, the Risk Management Progress Report at Appendix 2 and the Strategic Risk Management Review at Appendix 3.

4. Background

4.1 The Internal Audit Annual Report is produced in order to meet the requirements of the Public Sector Internal Audit Standards and to assist in meeting the Accounts and Audit Regulations 2015. The report provides details of audit coverage and of the work carried out by the section and contains the Chief Internal Auditor's opinion of the overall level of control in operation.

4.2 The Audit Committee's role in relation to reviewing the work carried out includes formal consideration of summaries of work done, key findings, issues of concern and actions in hand as a result of audit work. A key part of the role is receiving and reviewing regular reports from the Head of Governance (Chief Internal Auditor) in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage. The Audit Committee has a clear role in relation to the authority's internal audit function and this involves:

- Formally approving, but not directing, the overall strategy to ensure that it meets the council's overall strategic direction;
- Agreeing the annual audit plan (paying particular attention to whether there is sufficient and appropriate coverage); and
- Monitoring progress against the plan and assessing whether adequate skills and resources are available to provide an effective audit function.

5. Key issues and proposals

5.1 The Internal Audit Annual Report, Operational Risk update and Strategic Risk Management Report are attached at Appendices 1, 2 and 3.

Financial and legal implications	
Finance	None arising directly from the report.
Legal	Effective audit and risk management assist in good governance and probity of Council actions.

Other risks/implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	✓ / x
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	x
climate change	x
data protection	x

report author	telephone no.	email	date
Joanne Billington	01253 887372	Joanne.billington@wyre.gov.uk	27.04.2018

List of background papers:		
name of document	date	where available for inspection
None		

List of appendices

Appendix 1 – Internal Audit Annual Report 2017/18

Appendix 2 – Risk Management Progress Report – Operational Risks

Appendix 3 – Strategic Risk Management Review

arm/audit/cr/18/0805jb4

INTERNAL AUDIT ANNUAL REPORT 2017/18

The Internal Audit and Risk Management Section is responsible to the Head of Finance (S151 Officer) for carrying out a continuous examination of the accounting, financial and other operations of the council in accordance with Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2015. The latter states that **“A relevant authority must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk”**.

Members of the Audit Committee should note that copies of internal audit reports are published on the council’s intranet. Access to the supporting files is available to members of the Audit Committee on request.

Wyre Council continues to be represented on the Lancashire District Council’s Audit Group and we continue to participate in the National Fraud Initiative data sharing exercise and work closely with the Association of Local Authorities Risk Managers (ALARM) and our insurer, Zurich Municipal.

Internal Audit continues to provide the council with the necessary assurance about its various activities and associated systems, as outlined in the council’s Internal Audit Charter. In addition, the audit service has recently received validation following a peer review on its self-assessment of effectiveness of internal audit. Details of this peer review can be found later in this report.

This year (2017/18) 45 days of audit support were contracted out to Lancashire County Council (LCC) at a rate of £325 per day. This was supplemented by work performed by the in-house Senior Auditor. The work completed by the in-house team is benchmarked against the work carried out by LCC to ensure that quality and standards are maintained.

Electronic internal feedback review forms are distributed after each audit review. In 2017/18 the feedback received indicated that the work of internal audit continues to be highly regarded.

Following an audit carried out by Mazars in 2015/16 and uncertainty around the recommendations captured, a follow up audit was undertaken in Care and Repair and lessons learned will help to inform future audits in this area.

The audit plan for 2017/18 comprised a total of 13 audit reviews. This is a reduction compared to the 19 audit reviews that were completed in the 2016/17 audit plan. This is owing to 90 days (the equivalent of 9 audit reviews) being utilised by the Senior Auditor to assist the Data Protection Officer in the preparation of the General Data Protection Regulations (GDPR) which come into force on the 25 May 2018. Work has included reviewing data sharing agreements, populating and reviewing information asset registers and assisting the Data Protection Officer with general GDPR queries.

100% of the audit plan for 2017/18 will be completed within the agreed number of days and to budget. One audit (IR35) has been delayed owing to GDPR work. However the fieldwork is now in progress and it is expected that a draft report will be issued in May 2018.

Audit Work Performed in 2017 / 2018

Summarised below are the reviews that have been performed and reports issued in 2017/18. Final reports are published in full on the Council's Intranet site.

Lancashire County Council reports

AUDIT ASSURANCE DEFINITIONS

Full Assurance	There is a sound system of internal control which is adequately designed to meet the service's objectives and is effective in that controls are being consistently applied.
Substantial Assurance	There is a generally sound system of internal control, adequately designed to meet the service's objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.
Limited Assurance	Weaknesses in the design and/ or inconsistent application of controls put the achievement of the service's objectives at risk.
No Assurance	Weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the service's objectives.

DEFINITION OF RESIDUAL RISK

Extreme residual risk	Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: catastrophic loss of the service, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the service's reputation.	Immediate Action Required
High residual risk	Critical in that failure to address the issue or progress the work could lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the service's reputation.	Within 3 - 6 months
Medium residual risk	Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management.	Within 6 - 9 months
Low residual risk	Areas that individually have no major impact on achieving the service's objectives or on the work programme, but where combined with others could have an effect at the process level, which could give cause for concern.	Within 9 - 12 months

VAT	Final Report Issued April 17	0	0	0	0	Overall, LCC were able to provide full assurance over the internal controls reviewed for VAT. No recommendations were made following this review.
Treasury Management	Final Report Issued April 17	0	0	0	0	Overall, LCC were able to provide full assurance over the internal controls reviewed for Treasury Management. No recommendations were made following this review.
Follow-up Audit Work from the 2016/17 Audit Plan	Memorandum issued to Audit Committee and External Audit	N/A	N/A	N/A	N/A	No final report has been issued. However a summary of the areas tested has been issued to the Audit Committee and the External Auditor. It is pleasing to note that of the 23 priority 1 and 2 recommendations followed up, there was only one priority 2 recommendation that was still outstanding relating to training for the Equality Act. The delay in implementation is owing to staff changes and it is expected that this training will take place during the financial year 2018/19.

Wyre Council Reports

AUDIT OPINION DEFINITIONS

Excellent	Controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council / Partnership against significant foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.
Good	Controls exist to enable the achievement of service objectives, good corporate governance and reduce significant foreseeable risks. However, occasionally instances of failure to comply with the control process were identified and opportunities still exist to reduce potential risks.
Fair	Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system and leave the Council / Partnership exposed to some minor risk. There is therefore the need to introduce some additional controls and improve compliance with existing controls to reduce the risk to the Council / Partnership.
Weak	Controls are considered inefficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Council / Partnership open to significant risk, which could lead to major financial loss, embarrassment or failure to deliver service objectives.
Poor	Controls are generally weak or non-existent leaving the system open to abuse or error. A high number of key risks remain unidentified and therefore unmanaged.

DEFINITION OF PRIORITY RANKINGS

Level 1	Non-compliance with Financial Regulations and Financial Procedures Rules, Employees Code of Conduct, staff instructions etc. which could have a <u>material effect</u> on the Council's finances or, a lack of or serious weakness in key control(s) which may impact on the Council's finances or operational performance.	Immediate Action Required
Level 2	Non-compliance with Financial Regulations and Financial Procedures Rules, Employees Code of Conduct, staff instructions etc. which have a <u>minor effect</u> on the Council's finances or operational performance.	Within 3 months
Level 3	A lack of, or weakness in an internal control which does not pose an immediate high level of risk, but if left unresolved could expose the Council to financial losses or reduce operational performance.	Within 6 months
Level 4	Suggestions for improvement of internal controls of a minor nature.	Within 9 months
Level 5	Suggestions for improvements, efficiencies in service delivery.	None

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
Council complaints procedure	Final Report Issued Oct 17	0	2	4	0	1	Good	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • Employee guidance on the complaints procedure has not been published on the council intranet or periodic updates completed; • The various contact methods available to customers wishing to make a complaint are not clearly published on the council website; • The complaints leaflet requires updating; • The implementation of actions / feedback resulting from an investigation are not monitored or communicated to the Corporate Management Team; • The timescale for the periodic review of the complaints process have not been defined; • LGO complaints are not logged on the CRM system and correspondence scanned; and • There is currently no formal reporting process in place in respect of complaints and compliments received to enable this to be monitored accordingly.

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
Compliance with delegated responsibilities	Final report Issued Nov 17	0	1	3	0	0	Good	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • Executive decisions are not correctly completed in all instances; • Key decisions to be made are not published at least 28 days before the decision is due to be taken in all instances; • Written authorisation of functions delegated to officers is not obtained in all instances; and • The Scheme of Delegations to Officers requires updating to remove obsolete posts.
Care and Repair	Final Report Issued Jan 18	0	3	3	0	0	Good	<p>The Head of Finance / Section 151 requested that a follow-up piece of work was completed in the Care and Repair Service owing to a number of issues raised with the previous audit recommendations made in 2015/16. Overall, an audit opinion of ‘good’ was given. However areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • The risk assessments completed for the service are not reviewed annually; • Evidence of the insurances held by each contractor have not been requested in all instances;

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<ul style="list-style-type: none"> • Comparisons of prices quoted by some contractors have not been completed for some time to ensure value for money is being achieved; • Duplication in the recording of information and cash receipting processes identified in the previous audit review still exist; • Stock checks have not been completed for some time; and • The procedures undertaken by the Care & Manager require documenting to enable these to be accurately completed in her absence.
Transparency – The publication, access and re-use of Council information	Final report issued April 17	0	2	4	0	1	Good	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • Information is missing from or has not been updated in four datasets and no spot checks have been completed; • Website links to information recorded in the publication scheme were found to be out of date; • Responsibility for the review and maintenance of the publication scheme should be formalised to ensure this is routinely monitored; • The datasets published on the LGTC and Open Data web pages have to be navigated through various menus and links and are not user friendly;

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<ul style="list-style-type: none"> • Requests for the re-use of information cannot be identified as these are not categorised on the CRM system; • Datasets produced in response to FOI requests are not proactively published or licensed for re-use using the Open Government Licence (OGL); and • Existing information asset lists are not published on the council website.
Asset Management – Estates	Final report issued April 17	0	2	2	0	0	Excellent	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • The original lease agreements could not be located in the strong room for all leases examined; • The use of the Technology Forge System is not maximised as it is considered not to be user friendly; • A full reconciliation of the estates asset list to the Financial Services asset register has not been performed since 2014; and • Fleetwood Market casual arrears are not monitored as part of the monthly arrears process.
Procurement	Draft Report Issued April 17	0	6	0	0	0	Good	A follow up of the findings identified in the Procurement review completed in December 2016 was conducted and areas have been identified where improvements could still be

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<p>made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • The Chest templates are not fully completed in all instances or supporting information stored in the evaluation folder; • The Contract Procedures rules have not been updated to include information on the calculation of contract values and the treatment of lots; • The contract register requires reviewing to ensure this includes all contracts; • Purchase orders are not raised for all building maintenance invoices resulting in payment being incorrectly authorised; and • When purchasing specialised services Portfolio Holder approval is not obtained in all instances.
Marine Hall	Draft Report Issued April 17	0	11	5	0	0	Weak	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • Operational objectives for the Marine Hall have not been formally agreed and documented; • The profit and loss of each event is not accurately assessed as all costs are not included;

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<ul style="list-style-type: none"> • Front of house procedures have not been documented and cascaded to all staff; • CCTV signage does not contain the council's contact details and external signage is not displayed; • Staff duties within the office are not clearly defined; • Staff appraisals were not completed during 2017; • Event sheets are not fully completed with all charges due to the council; • All fees and charges due to the council are not invoiced and the date of receipt recorded on the event sheet in all instances; • Purchase card transactions are not recorded on the Civica system in a timely manner and authorisation obtained; • The cashing up process is not verified by two officers at the time of completion on each occasion; • The bar float is used for petty cash purchases which are not supported with itemised receipts in all instances; • Only one officer is responsible for the operation and system administration of the POSWYSE stock system; • User access permissions on the POSWYSE system are not routinely reviewed to ensure these are correct;

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<ul style="list-style-type: none"> Quarterly stock takes were not completed during 2017; Alarm codes and premises keys are given to contractors by the Asset Management team allowing them to enter premises when staff are not in attendance; and A date for the review of health and safety procedures by the Health and Safety Advisor has yet to be agreed.
Local Plan	No report issued	0	0	0	0	0	N/A	No report has been issued for this piece of work. The overall objective of the audit was to review the controls in place around the collection, use and storage of data for the local plan consultation and to provide advice and support throughout the process.
IR35	Fieldwork in progress							The overall objective of the audit is to evaluate the council's compliance with the intermediaries' legislation – IR35 to identify any areas of potential weakness and / or risk and provide an overall opinion as to whether the controls in place are managed adequately and effectively.

Other audit work undertaken:

Investigations

There have been no internal investigations carried out by Internal Audit during 2017/18.

Assistance has been provided to HRMC in relation to an ongoing investigation but there is not expected to be any impact on our services and further information is not available.

The services of KPMG's specialist I.T auditors were employed in relation to a disciplinary hearing owing to the complex nature of the skills required. This matter has now concluded.

National Fraud Initiative – Cabinet Office data matching exercise

The report for the 2014/15 data matching exercise reported to Audit Committee on the 19 September 2017 stated that the council had identified £33,458 in errors and overpayments. This involved processing approximately 1,489 data matches, of which 1,402 (94%) were cleared with no frauds, errors or overpayments being detected.

The council is at present processing the matches' identified during the 2016/17 exercise. Results of any matches will be reported to the Audit Committee in 2018.

Gifts and Hospitality (Received and Provided)

The Audit and Risk Management Team maintain the register of gifts and hospitality and provide advice when necessary. There is an on-line E-form which staff are required to complete on receipt of any gift or hospitality. The E-form is then passed to the Head of Governance to be included on the Council's register. Since 1 April 2017 there has been 29 gifts and hospitality items registered, compared to 33 items registered in 2016/17. A reminder was issued to staff in December 2017 reminding them of the policy and the need to report any gifts or hospitality received.

Information governance – Data Protection Officers (DPO) judgement of security and use of business assets

The new General Data Protection Regulations (GDPR) comes into force in May 2018. During 2017/18 the Data Protection Officer has been working with the Information Governance Group and the Senior Auditor to ensure the Council's readiness. Significant work has been achieved during the year, namely;

- The implementation of Information Asset registers. All services across the council have now completed a register which includes the identification of all personal data held, its location, retention period and also the legal basis for processing;
- Information Asset Owners have been identified and trained;
- E-learning software has been purchased and all staff who process personal data have successfully completed the training;
- All 50 Elected Members have now registered with the Information Commissioner; and
- All Council contracts (which involve personal data) are currently being reviewed to ensure they are GDPR compliant.

Whilst significant work has been completed during 2017/18, there is still a large amount of work to be completed before the 25 May deadline, namely;

- Freedom of Information (FOI) and Subject Access Training for all officers nominated to respond to such requests;
- Training for Council Elected Members and Parish and Town Councillors;
- Specific FOI and Subject Access training for the Councils' Legal Team to ensure they have the sufficient training to be able to give sound advice;
- A refresh of the Council's Data Protection policies; and
- Updating the Council's Internet and Intranet.

Until this work has been completed, it is in my opinion, as DPO that the Council is still vulnerable and as such may find it difficult to defend any challenge from the Information Commissioner in the event of a data breach. To ensure that progress continues, compliance to the GDPR has been highlighted as a strategic risk and as such the actions above will be monitored by the Corporate Management Team.

Counter Fraud and Corruption

All the council's counter fraud policies are reviewed annually by the Audit Committee. They are located on BRIAN to allow staff and Elected Members easy access.

Following a series of suspicious transactions made to the Council, a decision was made to invoke the use of the Council's Money Laundering Policy. Both the National Crime Agency and HRMC were notified. The Council have not been notified of the outcome. Since this time, both the Money Laundering Officer and the Deputy Money Laundering Officer have attended training on the new Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017.

Effectiveness of Internal Audit Review

In accordance with the Accounts and Audit Regulations 2015, paragraph 6 (1) requires the relevant body, each financial year to conduct a review of the effectiveness of its system of internal audit. The review recognises the important role that internal audit play in the assurance process and the need to continually ensure that it remains effective. In June 2017, a self-assessment was completed using the 'Public Sector Internal Audit Standards' and 'Local Government Guidance Note' issued by CIPFA. There were no gaps identified resulting in full compliance.

In order to comply with the PSIAS an external assessment must be conducted at least once every five years by a qualified independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment in-house with independent external validation. It was agreed by the Lancashire District Chief Auditors group and validated by the Audit Committee, that peer reviews would be used to obtain the independent external validation. Wyre Council's assessment was completed on the 17th and 18th April 2018. Whilst the report has not yet been received from the assessment team (Allerdale Borough Council and Preston City Council), feedback provided on the final day confirmed that the Internal Audit Team are fully compliant with the PSIAS. The report will be presented at the next Audit Committee.

Quality Assurance Improvement Programme

In accordance with the PSIAS, the Chief Internal Auditor (Head of Governance) must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both internal; and external assessments.

The internal assessments include the following:

- An annual self-assessment of the effectiveness of the audit service using the PSIAS. From this assessment an action plan highlighting areas for improvements will be developed. The results of this exercise are reported to the Audit Committee in May each year; six monthly monitoring of the internal audit activity to the Audit Committee; and
- Day-to-day monitoring of compliance with the Definition of Internal Auditing and the Code of Ethics documented within the section's Audit Charter and also in the PSIAS.

External assessments include:

- A 5 yearly independent assessment of compliance to the PSIAS;
- An annual review of the Council's Annual Governance Statement which accompanies the Statement of Accounts;
- Regular attendance at the Audit Committee by the Council's External Auditor with the opportunity to meet in private with the Committee; and
- The External Auditors and the Audit Committee review and challenge all internal audit reports.

Compliance to the Public Sector International Audit Standards (PSIAS)

In April 2014, the International Standard setters developed a comprehensive set of standards (PSIAS) that are expected to be in place within any effective audit organisation. The PSIAS replaced CIPFA's 'Code of Practice for Internal Audit in Local Government'. The PSIAS requires that areas of non-compliance with the PSIAS Definition of Internal Auditing and the Code of Ethics are reported in the Annual Audit report and that significant deviation requires inclusion in the Council's Annual Governance Statement. It should be noted that at the self-assessment dated June 2017 and the external validation in April 2018, there were no deviations to report.

Compliance Team

Wyre's compliance Team investigates alleged irregularities across a range of areas. These include but are not limited to:

- Investigating false claims for Council Tax Single Person Discount and other Council Tax discounts/exemptions,
- Investigating false claims for Council Tax Support (CTS);
- Business Rate Avoidance issues including identifying unregistered businesses, identifying falsified business rate relief claims and investigating the use of insolvency legislation to avoid liability;
- Identifying unregistered domestic properties, referring them to the Valuation Office Agency for entry into the local Council Tax rating list;

- Conducting general benefit review cases, identifying changes in circumstances and recalculating entitlements accordingly; and
- Recovery of overpaid Housing Benefit, Council Tax Arrears, Business Rate Arrears and Sundry Debts.

The Council has also recently introduced a civil penalty (low level fines) regime for both Council Tax and Housing Benefit for people who fail to report changes in circumstances resulting in over payments which do not meet the Single Fraud Investigation Service current investigation threshold. To date, 29 Housing Benefit and 11 Council Tax penalties have been issued. That equates to £2,220 in financial penalties. The team also concentrate some of its resources on mostly preventative functions such as fraud awareness training.

INTERNAL CONTROL SYSTEM

In accordance with the Audit and Accounts Regulations 2015, Internal Audit is required to form an opinion on the adequacy and effectiveness of the council's internal control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified throughout the year.

In providing an overall opinion on the council's system of internal control, it should be noted that assurance can never be absolute. Internal Audit can only provide reasonable assurance that there are no major weaknesses in the areas reviewed. In arriving at an opinion, consideration is given to;

- The findings from the audit work undertaken during the year;
- The amount of audit work undertaken in the year compared with work planned;
- The results of follow up action in respect of audit work;
- Whether or not any significant recommendations have not been accepted by management and the consequent risks; and
- The issues identified in the Annual Governance Statement.

The tables below show the total number of completed reports to date from both Wyre Council and Lancashire County Council during 2017/18 and the overall audit opinion / level of assurance that was given and also the total number of audits where the report is still at the draft stage.

Wyre Council Reports

Audit Opinion	Excellent	Good	Fair	Weak	Poor	Draft / Fieldwork	No report	Total
Number of Audits	1	5	0	1	0	1	1	9

No report has been issued for the Local Plan work. Further details of the work carried out in this area can be found in the summary of audit work performed earlier in this report.

Lancashire County Council (LCC) Reports

Audit Opinion	Full	Substantial	Limited	No Assurance	No report	Total
Number of Audits	2	1	0	0	1	4

No report has been issued for the follow-up review of 2016/17 audit recommendations. Further details of the work carried out in this area can be found in the summary of audit work performed earlier in this report.

Chief Internal Auditor's opinion on the council's internal control environment

Of the 10 reports issued (draft or final) to date during 2017/18, I am pleased to note the following;

30% (3) of the audit work completed has been issued with an audit opinion of 'excellent' (Wyre) or 'full' (LCC) assurance.

60% (6) of the audit work completed has been issued with an audit opinion of 'good' (Wyre) or 'substantial' (LCC) assurance.

10% (1) of the audit work completed was issued with an audit opinion of 'weak' (Wyre). I am confident that the actions that management have agreed in response to the findings will, if implemented satisfactorily, resolve the issues in an appropriate manner. It has been agreed that Internal Audit will monitor the implementation on a quarterly basis.

Taking into account all the areas that are listed above in respect of the internal control environment, it is my opinion that the council has in place satisfactory controls to be able to maintain an adequate and effective internal control environment.

Whilst significant progress has been made in ensuring the Council's readiness for GDPR, there is still a considerable amount of work to be completed before the 25 May 2018. It is therefore in my opinion that this should be reported in the Council's AGS for the year 2017/18.

Note

At the time of publishing this audit opinion, the work on IR35 had yet to be completed as was still at the 'fieldwork' stage. However, discussions with the Senior Auditor confirm that to date they have not identified any significant issues that would change the overall audit opinion.

RISK MANAGEMENT PROGRESS REPORT – OPERATIONAL RISKS

Progress on the embedding of risk management is reported to the Audit Committee via six monthly reports by the Head of Governance (Chief Internal Auditor). This is in line with the council's Risk Management Policy, originally approved by Cabinet in April 2004 and reviewed and approved annually by the Audit Committee.

Risk workshops are held in March / April each year with each service unit identifying any new risks that may occur during the year preventing the achievement of individual service plans. It is also an opportunity to review progress made in respect of any existing risks, remove risks that are no longer valid and action plan to mitigate against identified risks wherever possible.

All staff who have responsibilities for identified risks are encouraged to review their risks and update their action plans continually throughout the year. However a prompt is issued to staff in October to ensure progress is documented.

The council is currently using spreadsheets to assist with the management of operational risks and these can be viewed by following the link below. The Audit Committee are encouraged throughout the year to go and view the risks identified by each service unit and ensure progress is being made to mitigate each risk and challenge officers in the instances where no progress has been made.

<http://intranet/services/RiskManagement/Pages/default.aspx>

ICT Risks

During 2017, SOCITM carried out an independent review of the Council's ICT Service. A number of high level recommendations were made to improve the delivery of the service. One of the actions called for a review of the ICT key risks.

Internal Audit were asked to facilitate the risk workshop with the objective being to populate an ICT risk register which will be monitored by the Corporate Management Team. The risk workshop was held on the 24 April 2018. The risk register will be made available once agreed.



Wyre Council - Audit and Risk Management

STRATEGIC RISK REVIEW

22 February 2018

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Appendix B - Risks above the appetite

Appendix C - Risks below the appetite

Appendix D - Risks removed from the register

Report Preparation

Report prepared by: Karen McLellan, Senior Auditor
Telephone: 01253 887325

Report Distribution

This report has been issued to:

- Garry Payne – Chief Executive
- Marianne Hesketh – Service Director of Performance & Innovation
- Mark Billington – Service Director of People & Places
- Mark Broadhurst – Service Director of Health & Wellbeing
- Clare James – Head of Finance (S151)
- Joanne Billington – Head of Governance
- Cllr L McKay – Audit Committee Chairman

1. Introduction

- 1.1 On the 22 February 2018 a strategic risk management assessment was facilitated by the Senior Auditor for Wyre Council in accordance with the council's annual risk management process.
- 1.2 This exercise was attended by the Corporate Management Team, Head of Finance, Head of Governance and Councillor McKay in her role as the Chairman of the Audit Committee. The session provided an opportunity to review the existing strategic risk register for Wyre Council and to identify and prioritise any new risks facing the Council in its delivery of its business plan for 2018/19.

2. Executive Summary

- 2.1 The last half yearly review of the strategic risk register was completed in October 2017 by the Corporate Management Team. This exercise allowed any changes since then, both in circumstance and direction, to be identified and reflected in the revised risks.
- 2.2 During the most recent review the group identified 3 new risks and concluded that 3 of the original 8 risks could be removed from the register. (Appendix D describes the risks and the reason for their removal from the register). The 5 risks remaining from the original register were reviewed in terms of likelihood and impact resulting in 4 retaining the same rating and 1 being amended.
- 2.3 A review of the risk appetite was completed resulting in the low likelihood and catastrophic impact risks falling below the risk appetite. There are now 6 risks above the risk appetite and 2 risks below. The completed matrix is shown in Appendix A.
- 2.4 Following the assessment the 6 risks above the risk appetite are as follows:

Risk Number	Description
18	Central government funding is insufficient to provide the current level of service.
23	The efficiency programme is insufficient to meet the funding gap identified in the latest financial projection.

26	The use of council assets is not maximised leading to insufficient funding to deliver capital projects.
42	Business Rates Retention Reforms and the Fair Funding Review result in insufficient or unpredictable ongoing revenue to fund statutory services.
43	The Digital Wyre Strategy is not delivered owing to a lack of staff capacity and resources within the IT team.
44	The council fails to comply with the General Data Protection Regulations leading to investigation by the ICO and potential fines.

2.5 The risks above the risk appetite (Appendix B) will now be managed and monitored to ensure that they do not hinder the delivery of the Council's objectives. A risk owner for each of the risks has been identified and it is their responsibility to ensure that an action plan is developed that clearly demonstrates how the risk will be managed.

2.6 A number of risks are sitting below the appetite (Appendix C) and it is important that the controls already in place are regularly reviewed to ensure these continue to sufficiently control these risks and no additional action is required to ensure that their likelihood and/ or impact does not alter significantly.

3.0. Approval

3.1 The revised risk register will be reported to the Audit Committee and a copy of the risk register is available to view on the council's intranet.

4.0. Monitoring

4.1 Reviewing or monitoring of risks is twofold. Firstly the action plans to manage the risks should be regularly monitored and secondly the risks above and below the line should be reviewed in terms of their position on the matrix. Quarterly reviews of the action plans will be completed to demonstrate that risks above the appetite are being actively managed, with a half yearly review of all risks being completed in October.

5.0. Directorate operational risk registers

- 5.1 In accordance with the council's risk management processes, a review of the directorate operational risk registers will also be undertaken in March 2018 to review the risks currently recorded on the operational risk registers and to identify and prioritise any new risks facing each directorate in the delivery of their service plans for 2018/19.

Appendix A - Risk Profile

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Likelihood

A			18 23 26 42 43	
B			44	
C			28 39	
D				
E				
	IV	III	II	I
	Impact			

Likelihood: A - High
B - Significant
C - Low
D - Very Low
E - Almost Impossible

Impact: I - Catastrophic
II - Critical
III - Marginal
IV - Negligible

Appendix B – Strategic risks above the appetite

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence	Risk Owner
18	Critical / High	Central Government funding is insufficient to provide the current level of service.	Funding for the 4 years commencing 2016/17 has been announced but there continues to be a funding gap in 2021/22 of £2m and uncertainty around NHB and negative RSG remains.	<ul style="list-style-type: none"> • Further savings will need to be identified • The 4 year business plan may need to be reviewed in accordance with resources available • Negative impact on staff resulting from uncertainty about the future 	Clare James
23	Critical / High	The efficiency programme is insufficient to meet the funding gap identified in the latest financial projection.	The council has identified a number of projects that will help to reduce the gap between expenditure and income reflected in the latest MTFP. However, further projects will be required to achieve the level of savings required.	<ul style="list-style-type: none"> • Additional savings / cuts in services will be required • Members trust in the Management Team and the SLT to deliver future savings will be affected • The impact of further reductions in government grants will be exacerbated 	Management Team

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence	Risk Owner
26	Critical / High	The use of council assets is not maximised leading to insufficient funding to deliver capital projects.	Future capital investment is dependent on capital receipts from the sale of council assets.	<ul style="list-style-type: none"> • Additional savings / cuts in services will be required. • Additional borrowing costs will exacerbate the funding gap • Assets will deteriorate and maintenance costs will increase • Resident satisfaction levels will reduce 	M Hesketh
42	Critical / High	Business Rates Retention Reforms and the Fair Funding Review result in insufficient or unpredictable ongoing revenue to fund statutory services.	Business rates Reform of either 75% or 100% and the Fair Funding review lead to volatile funding (impact of radical changes planned with regular baseline resets, economic recession and large appeals) and an equivalent 'negative RSG' scenario.	<ul style="list-style-type: none"> • Impact on the settlement will not be known until December 2019 leaving little time to react and amend forecasts or refocus budgets • An additional reserve may be required to mitigate the impact of any significant reductions in funding redistributed by central government and to smooth the impact over a transitional period. 	Clare James

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence	Risk Owner
				<ul style="list-style-type: none"> • Further consequences linked to those of Risks 18 and 23. 	
43	Critical / High	The Digital Wyre Strategy is not delivered owing to a lack of staff capacity and resources within the IT team.	The Digital Wyre Strategy is a key project within the 2018/19 business plan and there is concern that there is a lack of staff capacity, particularly within the IT team, to deliver the projects within this.	<ul style="list-style-type: none"> • Projects are not delivered • Loss of reputation • Staff frustration as services are not improved 	Marianne Hesketh
44	Critical / Significant	The council fails to comply with the General Data Protection Regulations leading to investigation by the ICO and potential fines.	The new General Data Protection Regulations (GDPR) come into force in May 2018. However, there is a risk that the Council will not be able to make significant changes to processes and procedures controlling the use and retention of personal data prior to the 25 May deadline.	<ul style="list-style-type: none"> • Potential investigation / fines by the ICO • Increased responsibility on staff to ensure systems comply • Reputational damage 	Marianne Hesketh

Appendix C - Risks below the appetite

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence
28	Critical / Low	The Local Plan is declared unsound delaying its implementation.	The Council is required to adopt a Local Plan which must be tested at an inspection prior to adoption.	<ul style="list-style-type: none"> • Further costs will need to be incurred • Unwanted development will be hard to defend • Legislation / guidance may change requiring the exercise to be repeated at significant cost to the taxpayer
39	Critical / Low	Funding from Lancashire County Council is withdrawn impacting on the delivery of services within Wyre.	Lancashire county Council have now been able to set a legal budget for 2018/19. However, beyond 2019/20 there is a significant funding shortfall of £146m, with the potential of the funding to Wyre council being withdrawn.	<ul style="list-style-type: none"> • Services are withdrawn • Increased council expenditure to continue with existing services • Adverse publicity • Reputational damage • Increased complaints from service users

Appendix D - Risks removed from the register

Risk number	Reason for removing from register	Risk Description	Vulnerability	Consequence
22	Compliance with the agreed subsidy is being continually monitored by the Finance team and discussed with the YMCA during quarterly review meetings. Whilst this is a risk, this is no longer a strategic risk and will be transferred to the Chief Executives Operational risk register.	The leisure review does not generate the required rate of return for 2015/16.	The council agreed to spend significant sums redeveloping the Poulton and Thornton leisure centres to meet the needs identified in the public consultation exercise. Whilst professional external advisors have helped to specify the facility mix, the take-up is not guaranteed and the income and expenditure projections may not be achieved.	<ul style="list-style-type: none"> • Expenditure is higher than expected • Projected efficiency savings are not realised • Income falls short of the target

Risk number	Reason for removing from register	Risk Description	Vulnerability	Consequence
36	Risk removed. The combined authority is unlikely to proceed and Fylde / Ribble Valley and Wyre Councils have stated that they do not wish to participate.	Decisions by the shadow combined authority have an impact on the Borough and Council capacity	A shadow combined authority has been formed and Wyre Council are not a member of this. Therefore, Wyre will have no influence on the decision making process which could potentially affect the Borough and Council capacity.	<ul style="list-style-type: none"> • Council priorities are not delivered • Unable to influence decisions which may impact on Wyre residents • Allocation of resource may not ultimately result in the desired outcome
40	Risk reworded, as it is felt that capacity issues relate to specific projects. See new risks 43 and 44.	The delivery of the Councils Business Plan and projects is delayed due to capacity issues and current workload.	The Council has published the updated Business Plan for 2017, which sets out our strategic priorities and projects. However, due to the loss of key individuals and the inability to recruit staff in key service areas, there is a risk that projects will not be delivered.	<ul style="list-style-type: none"> • Projects are not delivered • The Council doesn't move forward • Staff under pressure leading to stress and absenteeism • Key staff leave • Failure to deliver objectives • Council criticised • Adverse publicity

25 April 2018

Clare James
Head of Finance
Wyre Borough Council
Civic Centre
Breck Road
Poulton-le-Fylde
Lancashire
FY6 7PU

Dear Clare

Fee for the audit of the accounts of Wyre Borough Council for the year ending 31 March 2019

We are writing to set out our fee for the audit of the accounts of Wyre Borough Council for the year ending 31 March 2019.

Proposed fee for the audit

The scale fee for the audit published by Public Sector Audit Appointments Limited (PSAA) in respect of the year ending 31 March 2019 is £37,470. This compares to the published fee scale for 2017/18 of £48,662.

We do not propose any variations to the scale fee.

Work programme

Our audit work will be undertaken under the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The Code sets the overall scope of the audit, requiring the auditor to give an opinion on the financial statements of a principal body subject to audit under the 2014 Act, and a conclusion on the arrangements for value for money.

The audited body is responsible for putting in place appropriate arrangements to support the proper conduct of public business, and for ensuring that public money is safeguarded, properly accounted for and used with due regard to value for money.

The Code requires that the auditor's work should be risk-based and proportionate. We tailor our work to reflect local circumstances and their assessment of audit risk. We do this by assessing the significant financial and operational risks facing an audited body, and evaluating the arrangements it has put in place to manage those risks.

This is the first year of our appointment and our predecessor has not yet completed their audit for 2017/18. Our risk assessment is therefore necessarily very limited at this stage. Based on our preliminary procedures, we have not identified planned pieces of risk-based value for money work.

Once we have completed our detailed planning and risk assessment procedures, we will present our initial audit plan to those charged with governance and provide an explanation for any variances to the published scale rate set out in this letter and following the approval process described below.

Assumptions on which the fee is based

The 2018/19 scale fee and our proposed fee is based on the following assumptions:

- there are no significant changes (compared to that applying to 2017/18 and reflected in the published fee scale for that year) in NAO guidance for auditors, professional standards, or CIPFA/LASAAC financial reporting requirements that would affect materially the amount of audit work to be undertaken for our 2018/19 audit;
- the authority is able to provide us with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes; and
- audit risk and complexity are similar to the level identified and reflected in the scale fee for 2018/19, including that: the authority maintains a strong control environment; and our detailed risk assessment work does not identify the need to undertake pieces of risk-based value for money work.

The proposed fee does not include fees for considering objections or any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998. These will be charged as a variation to the scale fee using the procedure described below.

From 2018/19, certification work is no longer covered by PSAA's audit contract and is therefore not within the scope of this letter. Where such work is requested, a separate tripartite engagement between the relevant department, the audited body and a reporting accountant is needed.

The fees exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

Variations to the proposed fee

Where it becomes clear that the amount of work required is significantly different to that which would be expected based on these assumptions (and reflected in the above fees), we will request a variation to the proposed fee.

We will first discuss the reasons for the additional fee with you and then submit a request to PSAA for a variation in the fee. PSAA has the power to determine the audit fee payable, which may vary from the prescribed scale fee, where it concludes that substantially more or less audit work was required than envisaged by the scale fee.

We look forward to working with the authority over the coming years.

Yours sincerely



Deloitte LLP