

Report of:	Meeting	Date	Item no.
Head of Finance (Section 151 Officer)	Audit Committee	20 June 2017	8

Internal Audit Annual Report 2016/17

1. Purpose of report

- 1.1 To approve the Internal Audit Annual Report for 2016/17 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 and Strategic Risk Management Reports 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

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

List of appendices

Appendix 1 – Internal Audit Annual Report 2016/17

Appendix 2 – Risk Management Progress Report – Operational Risks

Appendix 3 – Strategic Risk Management Review
arm/audit/cr/17/2006jb Item 8

INTERNAL AUDIT ANNUAL REPORT 2016/17

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. The audit service's effectiveness has also been recently reviewed using the Public Sector Internal Audit Standards.

This year (2016/17) 70 days of audit support was contracted out to both Lancashire County Council (LCC) and Mazars at a rate of £264 per day. The 70 days was split 38 / 32 retrospectively. 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 and Mazars to ensure that quality and standards are maintained.

Electronic internal feedback review forms are distributed after each audit review and in 2016/17 all the feedback received indicates that the work of internal audit continues to be valued with no major issues being reported.

The audit plan for 2016/17 comprised a total of 19 audit reviews, two of which (compliance with Financial Procedure Rules and PCI compliance) had been rolled from the 2015/16 financial year.

100% of the audit plan for 2016/17 will be completed within the agreed number of days and to budget. Two audits (YMCA and PCI Compliance) have been delayed due to the internal investigation that was carried out during the year by the Senior Auditor. It is expected that both reports will be issued in June 2017.

Audit Work Performed in 2016 / 2017

Summarised below are the reviews that have been performed and reports issued in 2016/17. Final reports are published in full on the Council's Intranet site.

Mazars reports

Assurance Level	Control Environment
Substantial Assurance	There is a sound system of internal control designed to achieve the organisation's objectives. The control processes tested are being consistently applied.
Adequate Assurance	While there is a basically sound system of internal control, there are weaknesses, which put some of the organisation's objectives at risk. The level of non-compliance with some of the control processes may put some of the organisation's objectives at risk.
Limited Assurance	Weaknesses in the system of internal controls are such as to put the organisation's objectives at risk. The level of non-compliance puts the organisation's objectives at risk.
No Assurance	Controls are generally weak leaving the system open to significant abuse and/or we have been inhibited or obstructed from carrying out or work.

Recommendation Priority	Description
1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
2 (Significant)	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.
3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

TITLE	STATUS	RECOMMENDATIONS				Summary
		1	2	3	Overall Assurance	
Payroll and expenses	Final report issued	0	2	2	Adequate	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • The council should ensure that employee bank changes that have not been processed through the self-service portal are identified by a payroll exception report. All bank changes identified should be reviewed by an independent officer to ensure they are correct; • Staff should submit completed log books for mileage claimed on a monthly basis and claim forms with receipts for all other expense claims; • All expenses should be authorised by a relevant officer prior to payment. The council should not pay expenses that have not been approved; • Management should ensure that contact centre expenses is governed by procedure, and receipts should be obtained for the expenses; and • Management should review the expenses policies and update them so they are in line with current practice.
Main accounting	Final report issued	0	0	3	Substantial	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • The council should ensure that control account reconciliations are signed and dated as completed and reviewed within 14 days of month end; • The council should continue to investigate whether automated approval controls can be built into Civica for cost centre and chart of account additions and amendments. In the meantime, the council should implement a formal process for the approval of cost centre and chart of account codes by Senior Management prior to being processed on Civica. The approval should be clearly documented; • The council should ensure that procedure documents are reviewed by Senior Management every two to three years and updated where necessary. This review should be clearly documented; and • Each procedure document clearly outlines responsible staff members and completion timescales.

TITLE	STATUS	RECOMMENDATIONS				Summary
		1	2	3	Overall Assurance	
Land charges	Final report issued	0	5	1	Adequate	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • The council should take into account any overestimate or underestimate in the LLC1 and CON29 unit charges for a financial year when determining the unit charges for the following financial year and clearly document the rationale behind the LLC1 and CON29 unit charges in the Portfolio Holders' report; • The council must ensure that each year, the latest financial summary is published on the Council's website in accordance with the Local Authority (Charges for Property Searches) Regulations 2008 and the unit charges listed on the Council's website for LLC searches clearly state the financial year to which they relate; • The council should ensure that the TLC system is reconciled to the BACS report on a daily basis and signed as evidence of review. Supporting evidence should be retained to support the reconciliation; • The council should ensure that the 'Basic Procedures Land Charges' document is reviewed and updated to reflect current practice; • The council should ensure that the Land Charges Officer and Clerical Assistant receive GIS training; and • The council should define a clear timescale for the amalgamation of the three systems and monitor delivery against it.

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

TITLE	STATUS	RECOMMENDATIONS				Summary
		Extreme	High	Med	Low	
NNDR	Full assurance	0	0	0	0	No recommendations were made following this review.
Cash receipting / PARIS	Full assurance	0	0	0	0	No recommendations were made following this review.
Website management	Limited assurance	0	0	4	0	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • ICT Services should review permission groups and ensure they know what access to each permission group allows, and ensure that evidence can be provided that permission groups allocated to officers are appropriate; • ICT should ensure officers are only able to update documents and pages for a service if it is appropriate for them to be able to do so and ensure evidence of this can be provided; • Those officers with 'contribute' responsibility should be instructed to ensure that information on their intranet pages is constantly kept up to date; and • The council should appoint and instruct Web Champions or other allocated officers as responsible officers for personally ensuring that contents on their area on the internet is continuously kept up to date. An officer/ team should be designated to periodically review contents on the internet and contact these Web Champions if content is out of date.
Information governance – position statement	Follow-up review	N/A	N/A	N/A	N/A	No final report has been issued. A follow-up review was completed to identify the progress made in implementing the 16 information governance recommendations. At the time of the audit (April 2017 only 5 recommendations had been implemented fully. The remaining 11 were either in progress or due to be addressed later in the year. Progress is slow owing to the council not having a dedicated information governance resource. Due to the high level of risk, information governance will feature in the 2016/17 annual governance statement as a significant risk to the council's governance framework.

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 delivery 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 Councils 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		
CROWN workforce management system	Final report issued	1	3	0	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"> • Lunch breaks are not accurately recorded by all staff when working over 6 hours; • The onsite / offsite facility is not used by all staff when leaving council buildings on council business or when moving between sites; • Leave entitlements are not accurately calculated by officers and adjusted for part-time staff in all instances; • Exceptions are not reviewed by managers and adjusted in a timely manner; and • The 'clock now' facility does not identify where an employee has clocked in.
Marine Hall – bar and kiosk stock	Final report issued	0	3	0	0	3	Good	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • Purchase orders are not raised and correctly authorised for all goods ordered; • Stock received and wastage are not accurately recorded in all instances; • Quarterly stock takes are not completed; • The council must inform TUCO should they decide to discontinue their membership; • Value for money is not achieved when purchasing stocks from local supermarkets; and • A full review of the POSWYSE access permissions is recommended to ensure these are correct.

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
Crown green bowling, pitch and putt and crazy golf – income and banking	Final report issued	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"> • Evidence of the public liability insurance held by each bowling club is not obtained; • Accurate records of the tickets sold to customers using the hourly bowls, pitch and putt and crazy golf services are not maintained; • Income received by the hourly bowls, pitch and putt and crazy golf services is not regularly banked; and • Inspections of casual contracts are not consistently completed during the year.
Compliance with the council's anti-money policy and procedure	Final report issued	0	0	2	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"> • The updated policy and reporting procedure is not cascaded to relevant officers following the annual review; and • Not all staff are aware of the AML policy and reporting procedure.
Election accounts	Final report issued	1	2	0	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"> • Payroll data held by the Elections Team is not destroyed following each election; • The method used to work out the payments to Electoral Services staff and supervisory staff is not documented; • Overtime records do not match the payments made to Electoral Services staff; and • A recharge to election funding is not made for financial services staff.

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
Compliance with the Freedom of Information Act 2000 and Environmental Information Regulations 2004	Final report issued	1	3	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"> • No training for new staff has been completed since 2014; • Some information included in the publication scheme is out of date and a disclosure log is not included; • No information on the EIR 2004 has been published on the council website; • Personal search requests which are responded to in accordance with the EIR 2004 are not recorded on the CRM system; • Where requests are not recorded on the CRM system on the day of receipt the due date is incorrectly calculated; • Requests for information under EIR 2004 are recorded as an FOI request on the CRM system; and • Target times for the completion of an internal review have not been agreed and published.
Compliance to financial procedure rules – procurement (rolled from 15/16)	Final report issued	0	4	8	0	0	Fair	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • The Procurement Strategy is not a strategic document approved by Members and the Management Team; • The Chest templates are not fully completed for all quotations / tender exercises or documentation held in the evaluation folder; • The Contract Procedure Rules do not contain any details of the methods for calculating the contract value in

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<p>accordance with the Public Contracts Regulations 2015;</p> <ul style="list-style-type: none"> • A system administrator has not been appointed to manage The Chest; • Data for all tenders, contracts and purchase orders over £5,000 is not published in accordance with the Transparency Code 2014; • The procurement forward plan is not up to date; • Contracts for goods, works and services valued between £10,000 to £100,000 are not procured in accordance with Contract Procedures in all instances; • Portfolio Holder exemption reports are not always completed where an exemption is used; • Tender notifications are not issued correctly in all instances; • Contracts are not signed before the contract start date; • No details of the responsibilities for the role of Procurement Champion have been issued to nominated staff; and • Additional training is needed for staff to improve their understanding of the Contract Procedure Rules.

	STATUS	RECOMMENDATIONS – PRIORITY RANKING					AUDIT OPINION	Summary
Concessionary leases	Final report issued	0	1	3	0	0	Fair	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • The council does not have a concessionary policy defining the eligibility and criteria for this type of lease; • A register of concessionary leases is not maintained; • Details of the subsidy payable by the council is not recorded on the decision notice; and • Four new leases issued in 2016 had not been signed at the time of the review.
Compliance to the Equality Act 2010 and the Public Sector Equality Duty	Final report issued	0	1	6	0	1	Fair	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • There is no strategic equality policy in place and responsibility for the implementation of this has not been agreed; • The Equality Framework for Local Government is not used by the council to assess their performance against the Public Sector Equality Duty; • No corporate training for staff has been completed since 2010; • There is no documented methodology for completing an equality impact assessment; • Report authors do not document their assessments of potential equality impacts; • The guide to integrating equality and diversity into procurement was removed from the contract procedure rules; Impact assessments are not routinely published to demonstrate due regard to the general equality duty; and

	STATUS	RECOMMENDATIONS – PRIORITY RANKING					AUDIT OPINION	Summary
		0	1	3	0	0	Fair	<ul style="list-style-type: none"> The equality objectives are not SMART objectives and have not been updated in accordance with the 2017 business plan refresh
YMCA	Fieldwork in progress							The overall objective of the audit is to review the systems and procedures in place at the YMCA and to identify any areas of potential weakness and / or risk and provide an overall opinion as to whether the controls in place are adequate and effective.
PCI compliance	Fieldwork in progress							The overall objective of the audit is to review the controls in place around PCI compliance and to identify any areas of potential weakness and / or risk and provide an overall opinion as to whether the controls in place are adequate and effective.
Follow-up work from 2015/16 audit plan	N/A							<p>No final report has been issued. Assurance was provided to the Head of Governance that agreed actions within a sample of audit reports have been actioned. It is pleasing to see that 70% of agreed actions have been implemented as agreed when compared to the 61% implemented in 2014/15. The remaining 30% of unimplemented actions have now been given revised implementation dates and these will be reviewed during the year.</p> <p>Work is on-going with the Contact Centre Team to automate the follow-up process.</p>

Other audit work undertaken:

Investigations

There has been one internal investigation carried out during 2016/17 in relation to the misuse of the flexi-time recording system. Following an extensive investigation, the officer resigned before the disciplinary hearing was held. Both the External Auditor and the Chairman of the Audit Committee were updated on the outcome of this investigation.

National Fraud Initiative – Data Matching Exercise.

The Council is currently processing the data matches received regarding housing benefits, council tax, rising 18's, payroll, creditor payments, VAT, licences, insurance claims, and resident parking permits. Once all matches have been examined, the Compliance Manager will attend Audit Committee in September 2017 to present the results.

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 2016 there has been 33 gifts and hospitality items registered, compared to 38 items registered in 2015/16. A reminder was issued to staff in December 2016 reminding them of the policy and the need to report any gifts or hospitality received.

Information governance – Senior Information Risk Owners (SIRO) judgement of security and use of business assets

In 2014, LCC carried out a review of the council's information governance framework. 16 recommendations were made with the main areas identified as requiring attention being the development of information asset registers, a classification scheme, identifying asset owners and the implementation of an information governance strategy. In April 2017, LCC completed a follow-up review to identify the progress made in implementing the recommendations. Unfortunately as there is no dedicated information governance resource, progress is slow and to date only 5 recommendations have been implemented fully. The remaining 11 are work in progress and are due to be addressed later in the year.

It should also be noted that the new General Data Protection Regulations (GDPR) comes into force in May 2018. A review has been scheduled into the audit plan for 2017/18 in relation to examining the council's GDPR readiness. However as things stand, it is expected that the council will have a significant amount of work to do in order to achieve compliance with the new regulations. It is for this reason that as the council's SIRO it is my opinion that at present there is a weakness around the controls in place to ensure full compliance with the current Data Protection Act and also with the incoming GDPR in May 2018 and this needs to be addressed.

Anti-Fraud and Corruption Awareness

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. It is

intended to refresh staff awareness in summer 2017 with a questionnaire to both staff and elected members to highlight any gaps in knowledge.

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. This year's review has been 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. The proposal from the Lancashire District Chief Auditors group, which has been agreed by Audit Committee, is to continue with the self-assessment and use peer reviews to obtain the independent external validation. Wyre Council's assessment will be completed in March 2018.

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 review dated May 2017 there were no deviations to report.

Security Sweeps

Security sweeps of the building were carried out in July 2016 with the objective being to give an opinion on the overall security of the Civic Centre, making suggestions where improvements could be made and ensuring that the council is complying with the seventh data protection principle 'personal information must be secure'. A few minor issues were identified at the time of the security sweep but they were immediately rectified.

Compliance Team

On the 1 August 2015 the Housing and Council Tax benefit fraud function transferred to the Dept. for Work and Pensions (DWP). Since that date the DWP determine which referrals are subject to a criminal investigation, a compliance investigation or are closed as no further action. As a result Wyre Council's compliance team has concentrated its resources on preventative and other investigative functions. These include:

- Investigating false claims for Council Tax Single Person Discount;
- 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 is also in the process of introducing 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.

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 Wyre, Lancashire County Council and Mazars during 2016/17 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	0	6	3	0	0	2	1	12

No report has been issued for the follow-up review of 2015/16 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.

Mazars Reports

Level of Assurance	Substantial Assurance	Adequate Assurance	Limited Assurance	No Assurance	Still in draft	Total
Number of Audits	1	2	0	0	0	3

Lancashire County Council (LCC) Reports

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

No report has been issued for the information governance work. However a memo was issued reporting the progress on the implementation of recommendations made in 2014. 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 control environment

Of the 19 pieces of work carried out during 2016/17, it is pleasing to note the following;

47% (9) of the audit work completed has been issued with an audit opinion of 'good' (Wyre Council) or 'substantial / full (LCC / Mazars) assurance.

26% (5) of the audit work completed has been issued with an audit opinion of 'fair' (Wyre Council) or 'adequate' (Mazars) assurance.

5% (1) of the audit work completed has been issued with an audit opinion of 'limited' (LCC) assurance.

No areas of audit work completed were issued with an audit opinion of weak' or 'poor' (Wyre Council), or 'no assurance' (LCC / Mazars).

Of the 6 areas of work that have not been given a good' or 'substantial / full assurance, 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.

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. However, due to the slow progress made in implementing the information governance recommendations and the importance of compliance with the new General Data Protection Regulations due to come into force in May 2018, it is in my opinion that this should be reported in the Council's AGS for the year 2016/17.

Note

At the time of publishing this audit opinion, two reports were still at 'fieldwork' stage. Discussions with the Senior Auditor confirm that to date, no significant issues have been identified 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 in September.

Risk workshops are held in 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>



Wyre Council - Audit and Risk Management

STRATEGIC RISK REVIEW

6 February 2017

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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 and Innovation
- Mark Billington – Service Director of People and Places
- Mark Broadhurst – Service Director of Health and Wellbeing
- Clare James – Head of Finance (Section 151)
- Joanne Billington – Head of Governance
- Cllr L McKay – Audit Committee Chairman

1. Introduction

- 1.1 On the 6 February 2017 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 2017/18.

2. Executive Summary

- 2.1 The last half yearly review of the strategic risk register was completed in October 2016 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 2 new risks and concluded that 1 of the original 9 risks could be removed from the register. (Appendix D describes the risks and the reason for their removal from the register). The 8 risks remaining from the original register were reviewed in terms of likelihood and impact resulting in 4 retaining the same rating and 4 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 7 risks above the risk appetite and 3 risks below. The completed matrix is shown in Appendix A.
- 2.4 Following the assessment the 7 risks above the risk appetite are as follows:

Risk Number	Description
18	Central government funding is insufficient to provide the current level of service.

Audit & Risk Management – Strategic Risk Review 2017

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.
38	The Local Plan is delayed due to the lack of response from other statutory consultees.
39	Funding from Lancashire County Council is withdrawn impacting on the delivery of services within Wyre.
40	The delivery of the Council's Business Plan and projects is delayed due to current workloads and staff capacity issues.
41	The current IT infrastructure is not fit for purpose.

- 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.

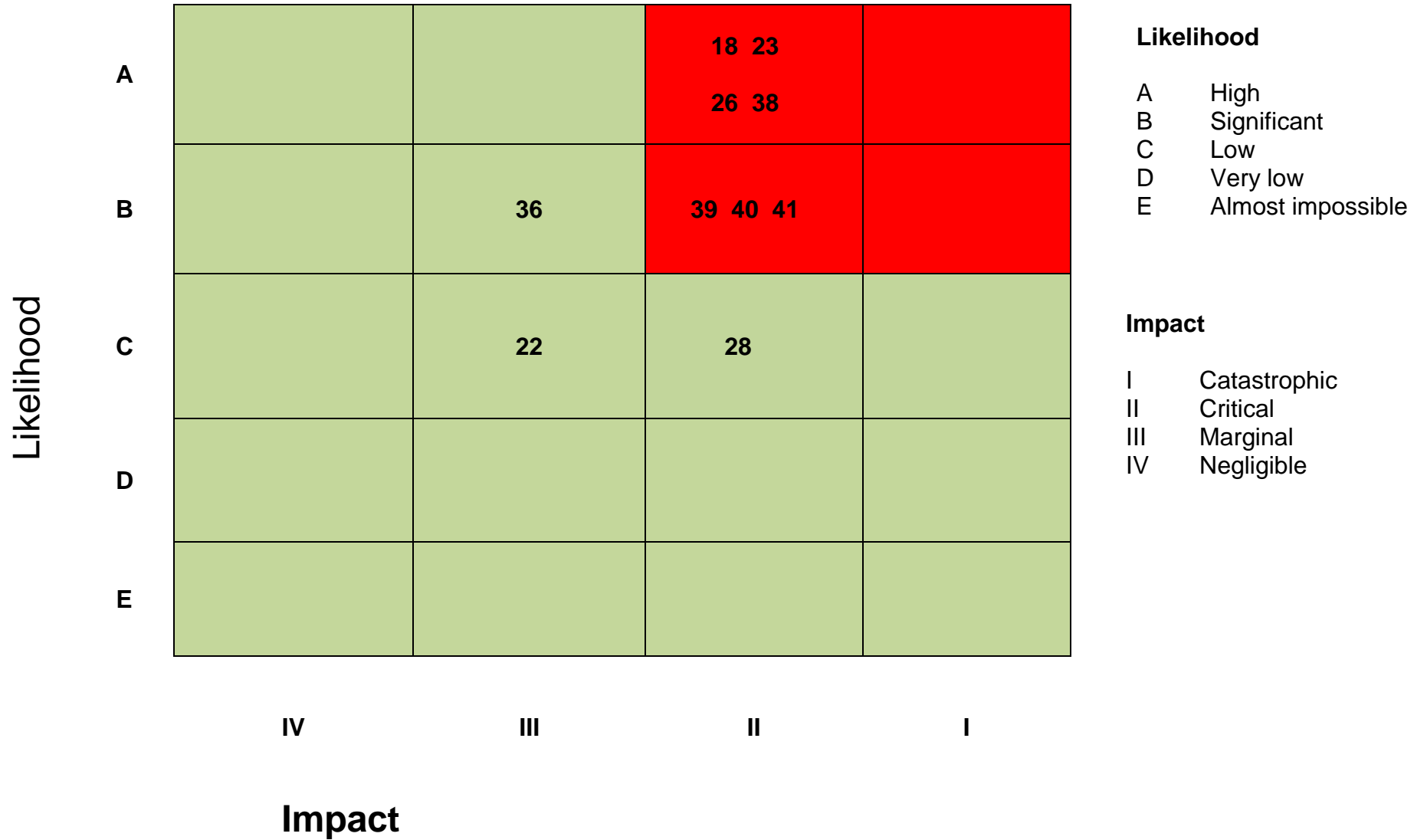
4.0. Monitoring

- 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 2017.

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 April 2017 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 2017/18.

Appendix A - Risk Profile



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 2019/20 of £1.8m and £2.2m in 2020/21.	<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
26	Critical / High	The use of council assets is not maximised leading to insufficient funding to	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 	M Hesketh

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence	Risk Owner
		deliver capital projects.		<ul style="list-style-type: none"> • Assets will deteriorate and maintenance costs will increase • Resident satisfaction levels will reduce 	
38	Critical / High	The Local Plan is delayed due to the lack of responses from other statutory consultees.	The Council is required to publish a Local Plan and timescales have been published.	<ul style="list-style-type: none"> • Reputational issues will arise • Further costs will need to be incurred • The Council may be subject to 'special measures' imposed by the DCLG 	Garry Payne
39	Critical / Significant	Funding from Lancashire County Council is withdrawn impacting on the delivery of services within Wyre.	Lancashire County Council have stated that they will not be able to set a legal budget for 2018/19 and have announced that significant savings have to be achieved to reduce their funding gap for 2017/18.	<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 	Management Team
40	Critical / Significant	The delivery of the council's Business Plan and projects is delayed due to capacity issues	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	<ul style="list-style-type: none"> • Projects are not delivered • The Council doesn't move forward 	Management Team

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence	Risk Owner
		and current workload.	key service areas, there is a risk that projects will not be delivered.	<ul style="list-style-type: none"> • Staff under pressure leading to stress and absenteeism • Key staff leave • Failure to deliver objectives • Council criticised • Adverse publicity 	
41	Critical / Significant	The current IT infrastructure is not fit for purpose	The capacity and performance of the current IT infrastructure is insufficient to meet the demand from services reducing operational performance.	<ul style="list-style-type: none"> • Loss of staff time • Delays in the delivery of key services • Productivity loss 	M Hesketh

Appendix C - Risks below the appetite

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence
22	Marginal / Low	The leisure review does not generate the required rate of return for 2016/17.	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
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
36	Marginal / Significant	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

Appendix D - Risks removed from the register

Risk number	Reason for removing from register	Risk Description	Vulnerability	Consequence
35	Following the conclusion of the Greengage support, regular 1 to 1's continue with the Chief Executive and the Service Directors and Head of Finance, contributing to their CPD. The budget has now been set and the new approach is working well, with presentations to the Conservative Group by the Head of Finance and attendance at Cabinet meetings and Full Council by Service Directors.	Three Senior members of the Senior Leadership Team will leave the organisation in 2016/17 resulting in a loss of knowledge and skills and increased expectations on those remaining.	The newly appointed Service Directors are retaining responsibility for their own service areas in addition to becoming members of the Corporate Management Team and responsible for strategic management.	<ul style="list-style-type: none"> • Loss of knowledge and experience • Capacity issues / increased expectations • Cultural change for the organisation • Ongoing challenges financially • Longer lead in to the delivery of efficiency savings • The management team will take time to develop effective working arrangements / build relationships.

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