

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

<b>Internal Audit Annual Report 2017/18</b>
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## 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

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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 2017/18

Appendix 2 – Risk Management Progress Report – Operational Risks

Appendix 3 – Strategic Risk Management Review

### **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

TITLE	STATUS	RECOMMENDATIONS				Summary
		Extreme	High	Med	Low	
Debtors, Creditors and Budgetary Control	Final Report Issued April 17	0	0	4	2	<p>Overall, LCC were able to provide <b>substantial assurance</b> over the internal controls reviewed for Creditors, Debtors and Budgetary control. Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> <li>• The Creditors system is set up to cascade orders to a separate, more senior officer if it is above the self-approval limit of the first officer. However, in one case an officer had intentionally split a single order into two separate orders to circumvent the need for approval by a second officer;</li> <li>• Computer assisted analysis of invoices revealed two instances where the invoices had been paid twice without detection and had not been recovered at the time of our audit;</li> <li>• Whilst processes have been followed in relation to requests from suppliers to change their bank account details, further controls have been discussed and agreed with Financial Services to mitigate additional risks that are inherent within the process;</li> <li>• Staff were not aware of the debt performance report or debt collection statistics referenced in the Sundry Debt Policy; and</li> <li>• The write off report has yet to be finalised by the Enforcement officer and financial services.</li> </ul>

<b>VAT</b>	<b>Final Report Issued April 17</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	Overall, LCC were able to provide <b>full assurance</b> over the internal controls reviewed for VAT. No recommendations were made following this review.
<b>Treasury Management</b>	<b>Final Report Issued April 17</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	Overall, LCC were able to provide <b>full assurance</b> over the internal controls reviewed for Treasury Management. No recommendations were made following this review.
<b>Follow-up Audit Work from the 2016/17 Audit Plan</b>	<b>Memorandum issued to Audit Committee and External Audit</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	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		
<b>Council complaints procedure</b>	<b>Final Report Issued Oct 17</b>	<b>0</b>	<b>2</b>	<b>4</b>	<b>0</b>	<b>1</b>	<b>Good</b>	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> <li>• Employee guidance on the complaints procedure has not been published on the council intranet or periodic updates completed;</li> <li>• The various contact methods available to customers wishing to make a complaint are not clearly published on the council website;</li> <li>• The complaints leaflet requires updating;</li> <li>• The implementation of actions / feedback resulting from an investigation are not monitored or communicated to the Corporate Management Team;</li> <li>• The timescale for the periodic review of the complaints process have not been defined;</li> <li>• LGO complaints are not logged on the CRM system and correspondence scanned; and</li> <li>• There is currently no formal reporting process in place in respect of complaints and compliments received to enable this to be monitored accordingly.</li> </ul>



TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
<b>Compliance with delegated responsibilities</b>	<b>Final report Issued Nov 17</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>Good</b>	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> <li>• Executive decisions are not correctly completed in all instances;</li> <li>• Key decisions to be made are not published at least 28 days before the decision is due to be taken in all instances;</li> <li>• Written authorisation of functions delegated to officers is not obtained in all instances; and</li> <li>• The Scheme of Delegations to Officers requires updating to remove obsolete posts.</li> </ul>
<b>Care and Repair</b>	<b>Final Report Issued Jan 18</b>	<b>0</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>Good</b>	<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"> <li>• The risk assessments completed for the service are not reviewed annually;</li> <li>• Evidence of the insurances held by each contractor have not been requested in all instances;</li> </ul>

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

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<ul style="list-style-type: none"> <li>• Requests for the re-use of information cannot be identified as these are not categorised on the CRM system;</li> <li>• Datasets produced in response to FOI requests are not proactively published or licensed for re-use using the Open Government Licence (OGL); and</li> <li>• Existing information asset lists are not published on the council website.</li> </ul>
<b>Asset Management – Estates</b>	<b>Final report issued April 17</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>Excellent</b>	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> <li>• The original lease agreements could not be located in the strong room for all leases examined;</li> <li>• The use of the Technology Forge System is not maximised as it is considered not to be user friendly;</li> <li>• A full reconciliation of the estates asset list to the Financial Services asset register has not been performed since 2014; and</li> <li>• Fleetwood Market casual arrears are not monitored as part of the monthly arrears process.</li> </ul>
<b>Procurement</b>	<b>Draft Report Issued April 17</b>	<b>0</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>Good</b>	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"> <li>• The Chest templates are not fully completed in all instances or supporting information stored in the evaluation folder;</li> <li>• The Contract Procedures rules have not been updated to include information on the calculation of contract values and the treatment of lots;</li> <li>• The contract register requires reviewing to ensure this includes all contracts;</li> <li>• Purchase orders are not raised for all building maintenance invoices resulting in payment being incorrectly authorised; and</li> <li>• When purchasing specialised services Portfolio Holder approval is not obtained in all instances.</li> </ul>
<b>Marine Hall</b>	<b>Draft Report Issued April 17</b>	<b>0</b>	<b>11</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>Weak</b>	<p>Areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> <li>• Operational objectives for the Marine Hall have not been formally agreed and documented;</li> <li>• The profit and loss of each event is not accurately assessed as all costs are not included;</li> </ul>

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

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<ul style="list-style-type: none"> <li>Quarterly stock takes were not completed during 2017;</li> <li>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</li> <li>A date for the review of health and safety procedures by the Health and Safety Advisor has yet to be agreed.</li> </ul>
<b>Local Plan</b>	<b>No report issued</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>N/A</b>	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.
<b>IR35</b>	<b>Fieldwork in progress</b>							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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**Report Preparation**

Report prepared by: Karen McLellan, Senior Auditor  
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**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:

<b>Risk Number</b>	<b>Description</b>
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**

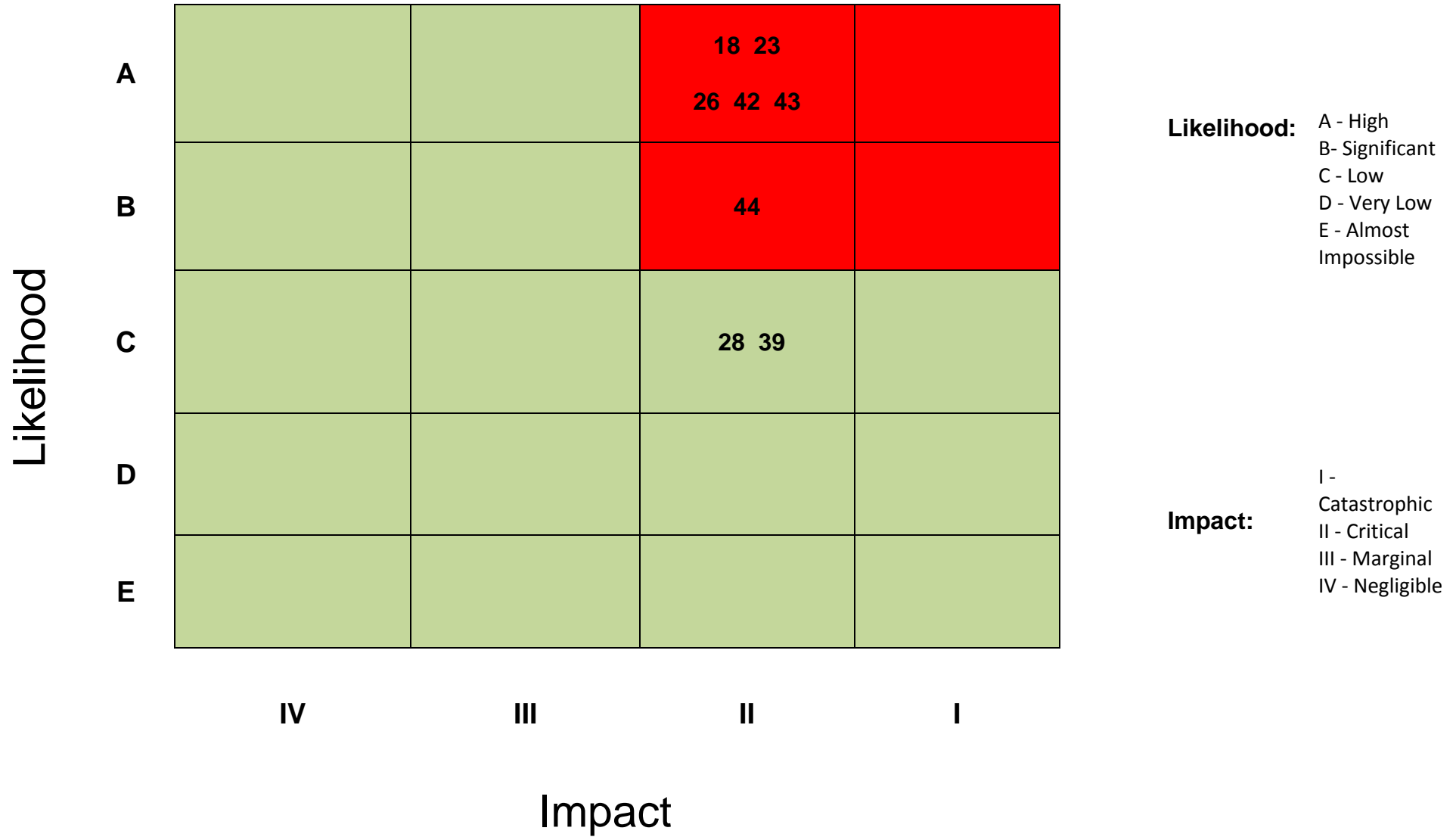
4.1 Reviewing or monitoring of risks is twofold. Firstly the action plans to manage the risks should be regularly monitored and secondly the risks above and below the line should be reviewed in terms of their position on the matrix. Quarterly reviews of the action plans will be completed to demonstrate 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



## 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"> <li>• Further savings will need to be identified</li> <li>• The 4 year business plan may need to be reviewed in accordance with resources available</li> <li>• Negative impact on staff resulting from uncertainty about the future</li> </ul>	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"> <li>• Additional savings / cuts in services will be required</li> <li>• Members trust in the Management Team and the SLT to deliver future savings will be affected</li> <li>• The impact of further reductions in government grants will be exacerbated</li> </ul>	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"> <li>• Additional savings / cuts in services will be required.</li> <li>• Additional borrowing costs will exacerbate the funding gap</li> <li>• Assets will deteriorate and maintenance costs will increase</li> <li>• Resident satisfaction levels will reduce</li> </ul>	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"> <li>• Impact on the settlement will not be known until December 2019 leaving little time to react and amend forecasts or refocus budgets</li> <li>• 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.</li> </ul>	Clare James

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence	Risk Owner
				<ul style="list-style-type: none"> <li>• Further consequences linked to those of Risks 18 and 23.</li> </ul>	
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"> <li>• Projects are not delivered</li> <li>• Loss of reputation</li> <li>• Staff frustration as services are not improved</li> </ul>	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"> <li>• Potential investigation / fines by the ICO</li> <li>• Increased responsibility on staff to ensure systems comply</li> <li>• Reputational damage</li> </ul>	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"> <li>• Further costs will need to be incurred</li> <li>• Unwanted development will be hard to defend</li> <li>• Legislation / guidance may change requiring the exercise to be repeated at significant cost to the taxpayer</li> </ul>
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"> <li>• Services are withdrawn</li> <li>• Increased council expenditure to continue with existing services</li> <li>• Adverse publicity</li> <li>• Reputational damage</li> <li>• Increased complaints from service users</li> </ul>

## Appendix D - Risks removed from the register

Risk number	Reason for removing from register	Risk Description	Vulnerability	Consequence
22	<p>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.</p>	<p>The leisure review does not generate the required rate of return for 2015/16.</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>• Expenditure is higher than expected</li> <li>• Projected efficiency savings are not realised</li> <li>• Income falls short of the target</li> </ul>

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"> <li>• Council priorities are not delivered</li> <li>• Unable to influence decisions which may impact on Wyre residents</li> <li>• Allocation of resource may not ultimately result in the desired outcome</li> </ul>
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"> <li>• Projects are not delivered</li> <li>• The Council doesn't move forward</li> <li>• Staff under pressure leading to stress and absenteeism</li> <li>• Key staff leave</li> <li>• Failure to deliver objectives</li> <li>• Council criticised</li> <li>• Adverse publicity</li> </ul>