

Report of:	Meeting	Date
Head of Finance (Section 151 Officer)	Audit Committee	28 May 2019

INTERNAL AUDIT ANNUAL REPORT 2018/19

1. Purpose of report

- 1.1 To approve the Internal Audit Annual Report for 2018/19 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

- 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 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, Risk Management progress report and Strategic Risk review 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 2018/19

Appendix 2 – Risk Management Progress Report – Operational, Strategic and ICT Risks

Appendix 3 – Strategic Risk Review

INTERNAL AUDIT ANNUAL REPORT 2018/19

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 (2018/19) 40 days of audit support were contracted out to Lancashire County Council (LCC) at a rate of £365 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 2018/19 the feedback received indicated that the work of internal audit continues to be highly regarded.

The original audit plan for 2018/19 comprised a total of 21 audit reviews. However owing to a member of the Audit and Risk Management Team leaving the organisation at the end of November, the Senior Auditor has taken on additional responsibilities in the short term whilst a recruitment exercise was completed. Following a discussion around the risks in each instance, a decision was made by the Section 151 Officer and the Head of Governance to roll four audits into the following 2019/20 audit plan. This was approved by the Audit Committee on the 13 November 2018. The audits rolled to the 2019/20 audit plan are as follows;

- Grant Management
- Better Care Fund

- Street Cleansing
- Go Cardless

The majority of the amended audit plan work for 2018/19 will be completed within the agreed number of days and within budget. One audit (Building Maintenance) has been moved to 2019/20 owing to delays in the aforementioned recruitment process. Fieldwork has now commenced and it is anticipated that a draft report will be issued in July 2019. No budget implications will arise as a result of this.

Audit Work Performed in 2018 / 2019

Summarised below are the reviews that have been performed and reports issued in 2018/19. Final reports are published in full on the Council's Intranet site.

Lancashire County Council reports

AUDIT ASSURANCE DEFINITIONS

Substantial Assurance	The framework of control is adequately designed and/or effectively operated.
Moderate Assurance	The framework of control is adequately designed and/or effectively operated overall, but some action is required to enhance aspects of it and/or ensure that it is effectively operated throughout.
Limited Assurance	There are some significant weaknesses in the design and/or operation of the framework of control that put the achievement of its objectives at risk.
No Assurance	There are some fundamental weaknesses in the design and/or operation of the framework of control that could result in failure to achieve its 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	
Payroll – HR21	Final Report Issued October 18	0	0	0	0	Overall, LCC were able to provide substantial assurance over the internal controls reviewed for Payroll. No recommendations were made following this review.
Housing Benefit Overpayments	Fieldwork in-progress					Fieldwork is near completion and initial feedback from the Auditor has been provided to the Head of Governance. It is expected that moderate assurance will be provided on the controls in respect of the processing of housing benefit overpayments. Minor issues have been identified which will be reported accordingly.
Project Management	Final Report Issued November 2018	0	0	3	3	Overall, LCC were able to provide moderate assurance over the internal controls reviewed for Project Management.
Follow-up Audit Work from the 2017/18 Audit Plan	Fieldwork in-progress	N/A	N/A	N/A	N/A	<p>At the time of publication, testing was still being completed to identify the percentage of 'Level 1 and Level 2' audit recommendations that had been completed as part of the 2017/18 audit plan. Initial feedback from the Auditor is that there are a number of agreed recommendations that have not been implemented as originally agreed. A memorandum will be issued to the Audit Committee and External Audit once this work has been completed.</p> <p>From April 2019, all audit reviews will be followed up as and when agreed actions timescales have passed. Following evidence of implementation, assurance ratings will be re-issued.</p>

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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 material effect 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		
Stray Dog Seizure and Kennelling Service	Final Report Issued November 2018	0	2	1	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"> • Documented procedures require updating to reflect the revised enforcement procedures; • No evidence is retained to demonstrate that the Area Officers have read and understood the safe working procedures and risk assessments; • Enforcement procedures are not consistently applied by the Area Officers during office hours; and • Manual handling training has not been updated for all Area Officers.
Homeless Reduction Scheme	Final Report Issued November 2018	0	6	1	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"> • The draft 2018-2022 homelessness strategy has not been formally agreed and published; • Monthly reviews of all outstanding cases have not been routinely completed in all instances;

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<ul style="list-style-type: none"> • Copies of the notifications issued to customers have not been retained in all instances; • Evidence of the caseload reviews completed by the Team Leader is not retained; • All enquiries received by the Housing Options team are not recorded enabling these to be accurately measured; • Wyre Council are the only Lancashire authority who use the Homeless Advice System (HAS) and continued support for this system should be assessed; • The current data sharing agreement issued to all agencies and partners requires updating; and • Evidence of fire and public liability insurance certificates for bed and breakfast accommodation is outstanding.
CCTV – Compliance with the General Data Protection Regulations	Final Report Issued May 2019	0	6	1	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"> • Reviews of some of the CCTV systems installed in other council buildings are still required;

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<ul style="list-style-type: none"> • A privacy impact assessment has not been completed for the Wyre Council town centre CCTV system; • Details of the complaints procedure is not included on the website page to improve access to this; • A revised data sharing agreement has yet to be completed by Lancashire County Council; • Random sample checks of the footage collected by each operator are not completed and documented; • Annual reviews of the effectiveness of the system and location of cameras are not routinely completed; • Knowledge of the technical aspects of the CCTV system are limited; • External certification has not been obtained for the Wyre Council town centre CCTV system; • An accurate audit trail showing user access to the main database is not available owing to the use of a generic username; • Periods away from the control room are not routinely recorded by operators and visitors to the control room do not record their attendance in all instances; and • Replacement of CCTV equipment is reliant on external funding as this is not

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								included in the council's capital programme.
New MOT Station / Copse Road Depot	Final report Issued December 2018	0	1	1	0	0	Excellent	<p>Only two areas have been identified where improvements could be made to strengthen the control environment, namely;</p> <ul style="list-style-type: none"> • MOT site management checks are not documented to evidence their completion; and • A contract or service level agreement is not in place for the maintenance of the depot security alarms and CCTV monitoring processes.
Taxi Licencing	Final Report Issued March 2019	1	5	4	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 that drivers have signed up to the DBS updating service is not held in all instances; • A number of drivers and operators have not completed any safeguarding or Child Sexual Exploitation training; • The segregation of duties within the licensing team is limited owing to the size of the team; • Outstanding renewals of driver and vehicle licences are not followed up;

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<ul style="list-style-type: none"> • Evidence of the V5 log book or V5c is not held on file for all vehicles; • Compliance with operator licence conditions cannot be demonstrated owing to the lack of evidence held on file; • Pro-active enforcement checks are not currently completed; • Evidence of a valid insurance policy is not supplied by all drivers following renewal of their insurance policy; • Evidence of the repairs completed by vehicle owners is not obtained in all instances following the issue of MOT advisory notice; and • All complaints received are not routinely recorded.
Car Parking – New Machines	Draft Report Issued February 2019	0	0	1	1	2	Good	Areas have been identified where improvements could be made to strengthen the control environment, namely; <ul style="list-style-type: none"> • There is no staff cover for when the Engineering Technical Support Officer is away from work; and • Cash anomalies are not always investigated in a timely manner.
Critiqom Mail Service	Draft Report Issued	1	1	0	1	0	Good	Areas have been identified where improvements could be made to strengthen the control environment, namely;

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
	February 2019							<ul style="list-style-type: none"> • A privacy impact assessment for the Critiqom contract has not been completed: • Critiqom has not been implemented for hybrid mail across the council; and • Inspections of the security controls / processes at Critiqom are not completed periodically.
SOCITM – Follow-up work	No Report Issued	N/A	N/A	N/A	N/A	N/A	Good	<p>The action plan issued with the original SOCITM report in February 2018 has been reviewed and evidence supplied to demonstrate agreed actions are being implemented in a timely manner. A review completed in April 2019 identified that good progress is being made and only a few minor actions are outstanding. These will continue to be monitored until completion by the Service Director Performance and Innovation.</p> <p>For the purpose of this Annual Audit Report, an overall opinion of ‘good’ is appropriate given the progress made in completing the agreed actions.</p>
GDPR Compliance Work	No Report Issued	N/A	N/A	N/A	N/A	N/A	Good	30 days were allocated as part of the 2018/19 audit plan to assist the council in ensuring compliance with the new General Data Protection Regulations (GDPR).

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<p>Since April 2018, time has been spent by the Senior Auditor ensuring all services have accurate privacy notices displayed on the website, Information Asset Registers are being formulated and data sharing agreements are either in place or are in the process of being developed for any areas where data is being shared with a third party on a regular basis.</p> <p>Whilst all privacy statements are now on the council's website, a small number of services are still to complete Information Asset Registers. Owing to the time taken in these two areas, no detailed compliance work has been completed around data sharing agreements. This will be picked up as part of the 2019/20 audit plan.</p> <p>For the purpose of this Annual Audit Report, an overall opinion of 'good' is appropriate following the compliance work completed during the year.</p>
Marine Hall – Follow up of 2017/18 Audit	No Report Issued	N/A	N/A	N/A	N/A	N/A	Fair	<p>Following a full review of Marine Hall in June 2018 a number of recommendations were made and an overall opinion of 'weak' was provided. In view of the low rating and at the request of the Head of Finance (Section 151 Officer) and the Audit Committee, regular follow-up reviews were completed by the Senior Auditor to ensure the actions were</p>

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<p>implemented and controls were clearly understood by staff. The last follow-up in April 2019, prompted by a further cash discrepancy, which was subsequently found, identified that there were still weaknesses in controls and staff were not following agreed working practices as originally agreed in the action plan. Following this observation, the Senior Auditor compiled a further procedure note in respect of the management of the cash floats and requested that staff sign to confirm their understanding. In addition, the staffing restructure originally earmarked for completion in July 2018 has not been completed.</p> <p>The Commercial Manager is due to attend Audit Committee on the 18 June 2019 where an updated action plan will be circulated.</p> <p>For the purpose of this Annual Audit Report, an overall opinion of ‘fair’ is appropriate following the April review, given that a number of agreed actions have already been implemented. However implementation of the agreed actions must continue to be monitored by the Commercial Manager to improve the overall control of cash handling and to implement the staffing restructure.</p>

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
Health and Safety	No Report Issued	N/A	N/A	N/A	N/A	N/A	Fair	<p>Following a full review of Health and Safety in May 2014 a number of recommendations were made and an overall opinion of ‘fair’ was provided.</p> <p>A position statement has been completed in April 2019 with the Health and Safety Advisor. Significant progress has been made by the Health and Safety Advisor in implementing the agreed actions, however further work is still required to give full assurance around asbestos and Legionella management, therefore for the purpose of this Annual Audit Report, given the seriousness of both these areas, the overall opinion remains unchanged. However, these areas will be examined as part of the Building Maintenance audit that is currently being undertaken.</p>
New Money Laundering Regulations – Follow-up	No Report Issued	N/A	N/A	N/A	N/A	N/A	Good	<p>The Council’s compliance with the Anti-Money Laundering Policy and procedure were originally reviewed in January 2017. Since this time, the Regulations were amended in 2018, resulting in the Money Laundering Officer (MLO) and the Deputy MLO attending external training. Following this, the MLO requested that Internal Audit complete a further piece of work to ensure the council were still compliant with the new regulations.</p>

TITLE	STATUS	RECOMMENDATIONS – PRIORITY RANKINGS					AUDIT OPINION	Summary
		1	2	3	4	5		
								<p>A list of relevant officers have been identified and an Ethical Governance Survey has identified that there are gaps in officer knowledge and their understanding of the Anti- Money Laundering Policy. The Policy is amended annually and a message was posted on the council's intranet advising staff of the updated policy and where to access it and a link was included in the August 2018 Core Brief for all staff.</p> <p>For the purpose of this Annual Audit Report, an overall opinion of 'good' is appropriate.</p>

Other audit work undertaken:

Investigations

There have been no internal investigations carried out by Internal Audit during 2018/19.

National Fraud Initiative – Cabinet Office data matching exercise

The Council is currently participating in the 2018/19 data matching exercise. Following the upload of the necessary data in September 2018, the Council has received the data matches that require investigation. At present a number of officers across the organisation are in the process of examining matches to identify if there are any error, fraud or overpayments. The results of this data matching exercise will be reported to the Audit Committee later in the year.

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 online 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 2018 there have been 20 gifts and hospitality items registered, compared to 29 items registered in 2017/18. A reminder was issued to staff in December 2018 about the policy and the need to report any gifts or hospitality received.

Information governance – Data Protection Officer's (DPO) judgement of security and use of business assets

The new Data Protection Act 2018 (the Act) and the enshrined General Data Protection Regulations (GDPR) came into force in May 2018. During 2018/19 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 (with the exception of Engineering who are still in the process of completing theirs) 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 were registered with the Information Commissioner;
- All council contracts (which involve personal data) are currently being reviewed to ensure they are GDPR compliant.
- All officers nominated to respond to Freedom of Information (FOI) and Subject Access requests have received training;
- All Elected Members and Parish and Town Councillors were offered training on their role as Data Controllers;
- The council's Legal Team have received specific FOI and Subject Access training to ensure they are able to give sound advice and apply the necessary exceptions;
- The council's website has been updated to reflect the new Act and the amended data subject rights.

Given the significant work completed, compliance to the GDPR was removed from the strategic risk register and also from the Council's Business Plan as a key project.. The Head of Governance now reports to Corporate Management Team on a quarterly basis and following the amendment of the Audit Committee Terms of Reference (June 2018), the Committee will receive regular updates and reports from the Head of Governance (Data Protection Officer) in relation to compliance with the Data Protection Act and Regulations made under the Act.

Whilst significant work has been completed during 2018/19, there is still some important work to be completed over the next 12 months, namely:

- Ensuring data sharing agreements are in place where personal data is shared externally on a regular basis;
- Continuing to review the council's contracts (which involve personal data) to ensure they are compliant;
- Refresh the council's Data Protection policies;
- Re-register all newly elected members and ensure they receive the necessary training; and
- Update the council's Intranet to reflect the new Act and the amended data subject rights.

Until this work has been completed, it is the opinion of the DPO that the Council may still be vulnerable in limited areas. Therefore, an operational risk has been established to ensure this continues to be monitored. In the event of a challenge from the Information Commissioner should a data breach occur, every effort will be made to mitigate the consequences.

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.

A recent Ethical Governance Survey has been completed by the Head of Governance to test staff knowledge and understanding of these policies. A report of the findings and any subsequent actions required to address any gaps in knowledge and understanding will be published in June 2019.

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. The last annual review completed by the Head of Governance and ratified by the Head of Finance (Section 151 Officer) in May 2019 identified no issues that required following-up or reporting in the 2018/19 Annual Governance Statement.

In addition, 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 in April 2018. The report was presented to the Audit Committee on the 19 June. Only three minor issues were identified, all of which have been considered and implemented where appropriate.

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 five 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 following the external validation in April 2018 and the self-assessment dated May 2019 there are no deviations to report in the 2018/19 Annual Governance Statement.

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 Localised Council Tax Support (LCTS);
- 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 overpayments which do not meet the Single Fraud Investigation Service current investigation threshold. To date, 109 Housing Benefit and 47 Council Tax penalties have been issued. That equates to £8,740 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 2018/19 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.

Lancashire County Council (LCC) Reports

Audit Opinion	Substantial	Moderate	Limited	No Assurance	Total
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Number of Audits	2	1	0	0	3
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No report has been issued for the follow-up review of 2017/18 audit recommendations as explained in the table above. A memorandum will be issued to Audit Committee and External Audit once this work has been completed. It is expected that this should be in June 2019.

Wyre Council Reports

Audit Opinion	Excellent	Good	Fair	Weak	Poor	Total
Number of Audits	1	6	0	0	0	7

No reports have been issued for five pieces of work (SOCITM, GDPR, Marine Hall, Anti Money Laundering and Health and Safety), as explained in the tables above. However for the purposes of this Annual Audit Report, overall opinions have been given following the work completed.

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

Of the 15 areas of work reviewed to date during 2018/19, I am pleased to note the following;

20% (3) of the areas of work reviewed have been issued with an audit opinion of 'excellent' (Wyre) or 'substantial' (LCC) assurance.

67% (10) of the areas of work reviewed have been issued with an audit opinion of 'good' (Wyre) or 'moderate' (LCC) assurance.

13% (2) of the areas of work reviewed have been issued with an audit opinion of 'fair' (Wyre).

It is pleasing to see that no work areas have been given either a 'weak' or poor' audit opinion (Wyre) or 'limited or 'no assurance' (LCC).

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 and that there are no significant concerns that need to be reported in the Council's Annual Governance Statement for 2018/19.

Note

At the time of publishing this audit opinion, the work on Building Maintenance had yet to be completed.

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 Feb / March 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>

Strategic Risks

The Corporate Management Team (CMT) met on the 1 February 2019 to carry out the annual strategic risk workshop. The workshop allows CMT, together with the Head of Governance, Senior Auditor and the Chairman of the Audit Committee the opportunity to review the current risk register and identify any new strategic risks.

Strategic risks and any subsequent action plans are reviewed every quarter. Any changes to the ratings are documented and supported by a valid reason and sufficient evidence. The results of quarterly updates will be reported verbally to the Audit Committee.

The results of the strategic risk workshop are attached at Appendix 3.

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 being the identification and compilation of an ICT risk register. This was completed in January 2018 and is reviewed quarterly by the Service Director Performance and Innovation, Head of Business Support and the Senior

Auditor. The next review is scheduled to be completed on the 20 May 2019 and a verbal update and a copy of the register will be provided at the meeting.



Wyre Council - Audit and Risk Management

STRATEGIC RISK REVIEW

1 February 2019

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Appendix B - Risks above the appetite

Appendix C - Risks below the appetite

Appendix D - Risks removed from the register

Report Preparation

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

Report Distribution

This report has been issued to:

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

1. Introduction

- 1.1 On the 1 February 2019 a strategic risk management workshop 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 2019/20.

2. Executive Summary

- 2.1 The last half yearly review of the strategic risk register was completed in October 2018 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 8 risks could be removed from the register. (Appendix D describes the risks and the reason for their removal from the register). The 7 risks remaining from the original register were reviewed in terms of likelihood and impact resulting in 4 retaining the same rating and 3 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 8 risks above the risk appetite and 1 risk below. The completed matrix is shown in Appendix A.
- 2.4 Following the assessment the 8 risks above the risk appetite are as follows:

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

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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.
39	Funding from Lancashire County Council is withdrawn impacting on the delivery of services within Wyre.
43	The Digital Wyre Strategy is not delivered due to a lack of staff capacity and resources within the IT team.
45	Council services are disrupted following the UK withdrawal from the EU.
46	The recruitment and retention of staff is challenging leading to increased council costs to attract and retain staff.

- 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 In respect of the risk sitting below the appetite (Appendix C) it is important that the controls already in place are regularly reviewed to ensure these continue to sufficiently control this risk and no additional action is required to ensure that the 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

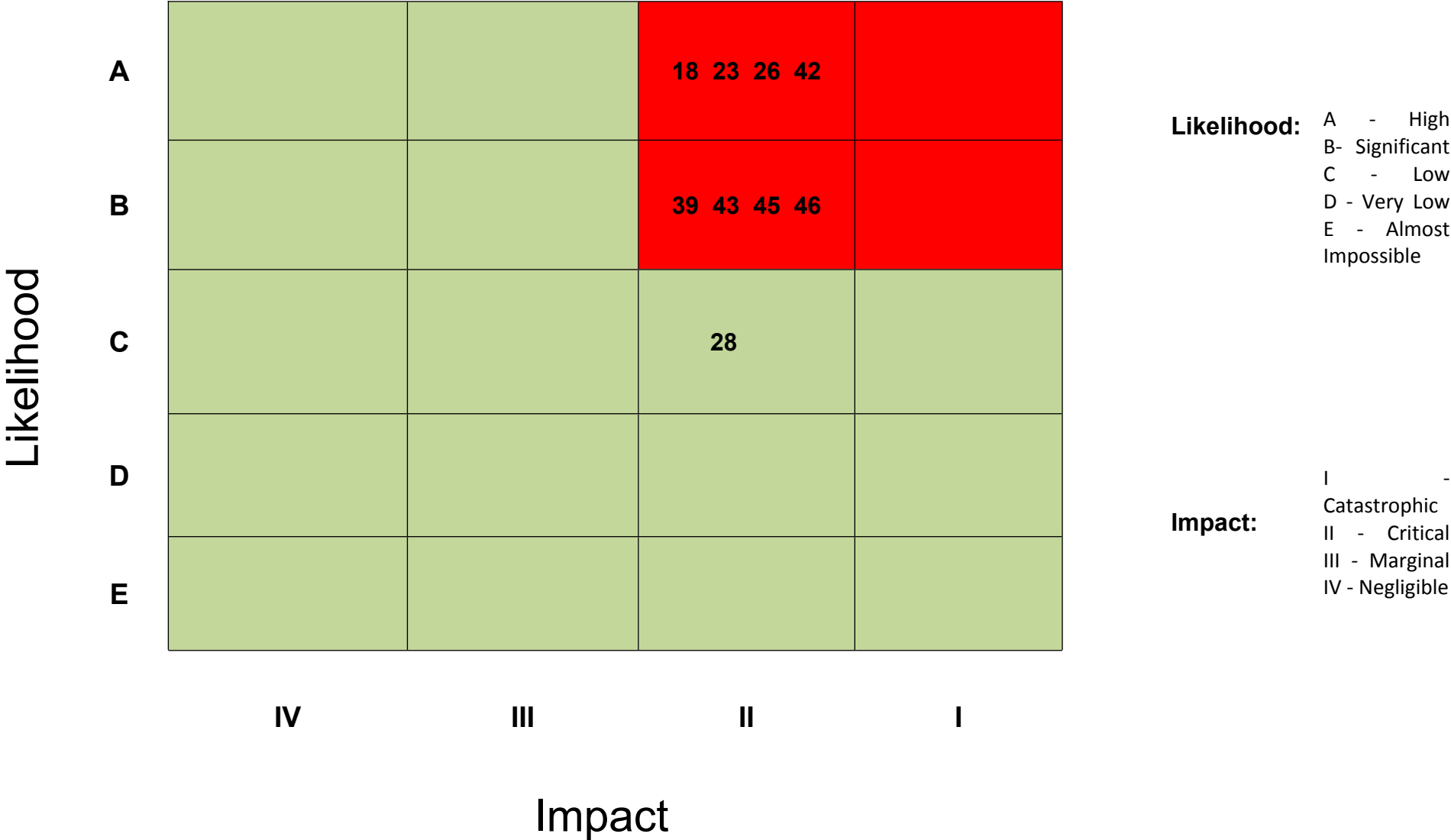
Audit & Risk Management – Strategic Risk Review 2019

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 2019.

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 February 2019 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 2019/20.

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 2023/24 of £2.7m and uncertainty around the Fair Funding Review, Spending Review and NHB and negative RSG remains.	<ul style="list-style-type: none"> • Further savings will need to be identified • The 4 year business plan may need to be reviewed in accordance with resources available • Negative impact on staff resulting from uncertainty about the future 	Clare James
23	Critical / High	The efficiency programme is insufficient to meet the funding gap identified in the latest financial projection.	The council has identified a number of projects that will help to reduce the gap between expenditure and income reflected in the latest MTFP. However, further projects will be required to achieve the level of savings required.	<ul style="list-style-type: none"> • Additional savings / cuts in services will be required • Members' trust in the Corporate Management Team and the SLT to deliver future savings will be affected • The impact of further reductions in government grants will be exacerbated 	CMT

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence	Risk Owner
26	Critical / High	The use of council assets is not maximised leading to insufficient funding to deliver capital projects.	Future capital investment is dependent on capital receipts from the sale of council assets.	<ul style="list-style-type: none"> • Additional savings / cuts in services will be required. • Additional borrowing costs will exacerbate the funding gap • Assets will deteriorate and maintenance costs will increase • Resident satisfaction levels will reduce 	Marianne Hesketh
39	Critical / Significant	Funding from Lancashire County Council is withdrawn impacting on the delivery of services within Wyre.	Lancashire County Council have set a legal budget for 2018/19 but have announced that significant savings have to be achieved to reduce their funding gap beyond 2019/20.	<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 	CMT
42	Critical / High	Business Rates Retention Reforms result in insufficient or unpredictable ongoing revenue to fund	Business Rates Reform of either 75% or 100% leads to volatile funding (impact of radical changes planned with regular baseline resets, economic recession and large appeals).	<ul style="list-style-type: none"> • Impact on the settlement will not be known until December 2019 leaving little time to react and amend forecasts or refocus budgets 	Clare James

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence	Risk Owner
		statutory services.		<ul style="list-style-type: none"> • 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. • Further consequences linked to those risks 18 and 23. 	
43	Critical / Significant	The Digital Wyre Strategy is not delivered owing to a lack of staff capacity and resources within the ICT and Digital 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 ICT and Digital team, to deliver the projects within this.	<ul style="list-style-type: none"> • Projects are not delivered • Loss of reputation • Staff frustration as services are not improved 	Marianne Hesketh
45	Critical / Significant	Council services are disrupted following the UK withdrawal from the EU.	The UK is due to leave the EU on the 29/3/19. The impact of BREXIT on council funding, services and supplies is uncertain at this stage.	<ul style="list-style-type: none"> • Increased supplier / materials costs • Loss of funding • Withdrawal of council services 	CMT

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence	Risk Owner
				<ul style="list-style-type: none"> • Council projects cannot be delivered 	
46	Critical / Significant	The recruitment and retention of staff is challenging leading to increased council costs to attract and retain staff.	The council are experiencing difficulty in attracting and retaining staff in key service areas owing to competing salaries at neighbouring authorities and the private sector.	<ul style="list-style-type: none"> • Loss of knowledge / experienced staff • Unable to recruit qualified / skilled staff • Council projects are not delivered • Existing resources are stretched 	CMT

Appendix C - Risks below the appetite

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence
28	Critical / Low	The Local Plan is declared unsound delaying its implementation.	The Council is required to adopt a Local Plan which must be tested at an inspection prior to adoption.	<ul style="list-style-type: none"> • Further costs will need to be incurred • Unwanted development will be hard to defend • Legislation / guidance may change requiring the exercise to be repeated at significant cost to the taxpayer

Appendix D - Risks removed from the register

Risk number	Reason for removing from register	Risk Description	Vulnerability	Consequence
44	Major work has been completed, including the compilation of information asset registers and privacy statements for each service area. Training for all staff has been undertaken and contract reviews are progressing. This risk will now be transferred to the operational risk registers to monitor further compliance with the completion of privacy impact assessments and reporting of any potential breaches.	The council fails to comply with the General Data Protection Regulations leading to investigation by the ICO and potential fines.	The new General Data Protection Regulations (GDPR) come into force in May 2018. However, there is a risk that the Council will not be able to make significant changes to processes and procedures controlling the use and retention of personal data prior to the 25 May deadline.	<ul style="list-style-type: none"> • Potential investigation / fines by the ICO • Increased responsibility on staff to ensure systems comply • Reputational damage

