

Matters arising from internal audit work for 2018/19 completed since 1 May 2019

1 Introduction

- 1.1 This report highlights the issues that the Audit, Risk and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It sets out the issues arising from the work undertaken during the period to 30 June 2019 by the Internal Audit Service under the audit plan for 2018/19.

2 The assurance now available to the committee for 2018/19

- 2.1 A summary of all the assurance we have provided during 2018/19 to the end of June 2019 is set out in the table below, including each internal audit assignment directed to providing controls assurance. The figures for 2017/18 and 2016/17 are provided for comparison.

2018/19 assignments addressing:	Total	Assurance			
		Substantial	Moderate	Limited	None
Governance and democratic oversight	1	-	-	1	-
Business effectiveness	4	2	2	-	-
Service delivery	50	13	29	8	-
Service support	6	2	2	2	-
Business processes	16	8	6	2	-
2018/19 assignments	77	25	39	13	0
	100%	32%	51%	17%	-
2018/19 assignments as reported in May 2019	46	18	19	9	0
	100%	39%	41%	20%	-
2017/18 assignments	51	5	34	12	0
	100%	10%	67%	23%	-
2016/17 assignments	31	3	24	4	0
	100%	10%	77%	13%	-

- 2.2 As can be clearly seen, a further 31 audits have now been reported and the overall balance of assurances still strongly supports the moderate assurance already given for the year in May, and reinforces the assessment made then that the council's direction of travel is positive.
- 2.3 The full list of audits completed under the plan for 2018/19, and the assurance provided for each, are shown in appendix B to this report.
- 2.4 Summaries of the findings from each of the audit engagements completed since 1 May 2019 are included in appendix C to this report.

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- 2.5 An explanation of the assurance provided in 2018/19 is provided in appendix D. This also includes the definitions of the assurance used by Deloitte in respect of its work on Local Pensions Partnership Ltd (LPP) which administers the Lancashire Pension Fund and manages investments its behalf, since Deloitte's classification scheme differs slightly from that used by the Internal Audit Service.

Lancashire Pension Fund

- 2.6 In addition to the work managed and undertaken by the council's Internal Audit Service on the council's governance of the Fund and other operational matters, Deloitte has completed five of the seven planned audits of LPP. Deloitte disclaims any liability to the council for any reliance it may place on this work but has agreed that its conclusions may be reported to the Audit, Risk and Governance Committee, and these are as follows:

Control area	Assurance
Benefits administration	Ineffective
Investments: legal and regulatory compliance	Ineffective
Investments: Markets in Financial Instruments Directive (MIFID II) compliance	Effective
Third party oversight of investments	Effective with scope for improvement
General Data Protection Regulation readiness	Effective with scope for improvement
Cyber security	Ineffective
Core financial controls: management information and reporting (within LPP)	Ineffective

- 2.7 We understand that these assessments were not necessarily unexpected by LPP's senior management team, as it has worked through on a period of significant adjustment to its business that will continue into 2019/20. Some of the issues raised by the audits had already been recognised and we understand that work has begun to address them. We also understand that action has been taken to address many of the matters arising from earlier audits and any future internal audit work plans will firstly seek assurance that the 'ineffective' functions will be re-tested to ensure the risks have been mitigated.

3 Completion of the internal audit plan for 2018/19

- 3.1 As previously reported, audit work has progressed well against an ambitious plan for the year. Of the 79 audits on the audit plan, 77, (97%) are complete. Two audits remain incomplete (both addressing ICT risks) and will be reported during 2019/20.

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4 Follow up work

During 2018/19 the Internal Audit Service undertook no independent follow-up work to confirm whether the remedial action agreed by managers had been taken. However managers' own assessments whether action has been completed by the due date, is incomplete, or has been superseded have been collated and the results are as follows:

Numbers of actions agreed during 2016/17, 2017/18 and 2018/19 and now due							
Action status	March 2019		June 2019		Risk rating		
	Total		Total		High	Medium	Low
	Complete	267	73%	313	74%	21	160
Superseded	46	13%	48	12%	7	25	16
Incomplete	11	3%	14	3%	2	12	0
Awaiting responses	39	11%	46	11%	5	30	11
Total	363	100%	421	100%	35	227	159

- 4.1 There are just two actions still outstanding from 2016/17, both relating to governance of the Lancashire Enterprise Partnership, and it is expected that these will be cleared very quickly now after some considerable change to the partnership and the council's engagement with it in recent months. Of the other 87 actions arising in that year, managers have confirmed that 68 are complete and 19 superseded. These actions will not be reported again in future statistics.
- 4.2 It is intended similarly to close the actions arising from 2017/18 as soon as possible. At this point 149 are complete, 26 superseded, 6 incomplete but in hand, and managers have not confirmed the status of just 5 actions. These will be pursued and, after one further report to the committee, it is hoped that they will not need to be reported again.