

Internal Audit Annual Report 2018/19



What we do best...

Innovative assurance services
Specialists in internal audit
Comprehensive risk management
Experts in countering fraud

...and what sets us apart

Unrivalled best value to our customers
**Existing strong regional public sector
partnership**
**Auditors with the knowledge and expertise to
get the job done**
**Already working extensively with the not for
profit and third sector**

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This report has been prepared solely for the use of Members and Management of West Lindsey District Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

Purpose of Annual Report

The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. In particular:-

- Include an opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it;
- Inform how the plan was discharged and the overall outcomes of the work undertaken that supports the opinion;
- A statement on conformance with the PSIAS and the results of the internal audit quality assurance);
- Draw attention to any issues particularly relevant to the Annual Governance Statement

Annual Opinion

For the twelve months ended 31 March 2019 (based on the work we have undertaken and information from other sources of assurance) my opinion on the adequacy and effectiveness of West Lindsey District Council's arrangements for governance, risk management and control is:-

Governance 	Performing Well – Some improvements identified over the Council's Governance, Risk and Control framework or to manage medium risks across the Council
Risk 	Performing Well – No concerns that significantly affect the governance, risk and control framework and successful delivery of the Council priorities
Internal Control 	Performing Well – Some improvements identified over the Council's Governance, Risk and Control framework or to manage medium risks across the Council
Financial Control 	Performing Well – No concerns that significantly affect the governance, risk and control framework and successful delivery of the Council priorities

Governance



"Achieving the Intended Outcomes While Acting in the Public Interest at all Times"

It is comprised of systems, processes, culture and values, by which the Council is directed and controlled and through which they account to, engage with, and where appropriate, lead their communities.

Each year the Council is required to reflect on how its governance arrangements have worked – identifying any significant governance issues that it feels should be drawn to the attention of the public – in the interests of accountability and transparency. Areas of focus identified by the Council in the 2018/19 statement are:

- Risk Management
- Member Induction and Training following 2019 Elections
- Governance Review – Culture and Values – implementing agreed actions
- Preparing for the LGA peer review

There are no significant governance issues that we wish to draw to the attention of the Council for inclusion in its Annual Governance Statement. We have reported a number of Limited Assurance Opinions – see page 6.

The Governance and Audit Committee helps to ensure that these arrangements are working effectively. They regularly review the governance framework and consider the draft and final versions of the Annual Governance Statement.

Governance assurance remains the same



Assessed as Performing Well

We undertook a Governance Review of culture and values in 2018 – this showed that the Council's core values were at the heart of what the Council does – being open, transparent and inclusive. The report recommendations provided the Council with suggested improvements to help embed good governance across the organisation.

Risk



Good risk management is part of the way we work. It is about taking the right risks when making decisions or where we need to encourage innovation in times of major change – balancing risk, quality, cost and affordability. This put us in a stronger position to deliver our goals and provide excellent services.

During the year the Council's risk management arrangements were assessed as Green through the combined assurance review (a high level of assurance).

There are established structures and processes for identifying, assessing and managing risk and these remain effective.

The Council's leadership team is currently undertaking a full review of its corporate plan and strategic risks – including assessing risk appetite.

Risk Management assurance is regularly monitored by the Corporate Leadership Team. The Governance and Audit Committee reviewed the Strategic Risk Register in April 2018 and January 2019.

The above information helped inform the Head of Internal Audit opinion.

**Risk
Management
assurance
remains the same**



**Assessed as
Performing Well**

Internal Control



We take account of the outcome of our audit work during the 2018/19 year. As our audit plans include different activities each year it is not unexpected that assurance varies. However the assurance levels still give insight into the Council's control environment.

Positive assurance levels continue to improve upon the previous year for the Council's systems – 90% of all internal audit assurance work had a positive assurance opinion.

There were two **Limited assurance** opinions and no **Low assurance**.

The limited assurance opinions are:

- Food Safety & Environmental Protection
- Planning Enforcement Follow Up*

A summary of these audits can be found in appendix 1

* This Limited Assurance review was a follow up on the 2017 audit which was also a Limited assurance opinion.

During the year we have made 79 recommendations for improvement – there are no over due actions to report up to the 31.03.2019. – There are 45 actions being worked on which are not yet due, see appendix 2 for full details of audits completed during the year.

The outcome of our internal audit work and the intelligence gathered through the combined assurance framework has helped inform the Head of Internal Audit's opinion on Internal Control.

Internal Control assurance has remained the same



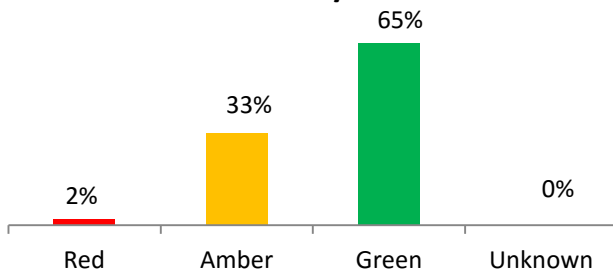
Assessed as Performing Well



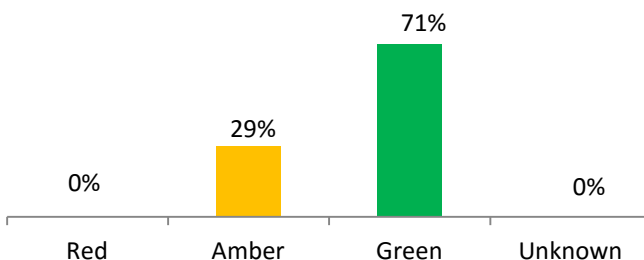
A Combined Assurance Status report is produced by the Council on the level of confidence they can provide on service delivery arrangements, management of risks, operation of controls and performance for their area of responsibility. These reports are reviewed by the Audit Committee and provide key assurance evidence to support the Head of Internal Audit opinion.

Combined Assurance Status Report

**Overall Assurance Status
2018/19**



Overall Assurance Status 2017/18



We help co-ordinate the Council's assurance intelligence.

Areas where management assurance provided gave a high level of assurance and / or low risk currently facing the service have reduced by **6%** compared to 2017/18 but continues to predominately remain positive. Key areas where management action is still required: are:-

Transactional Services

Gainsborough Market

Emerging Risks

Capacity in Revenues & Benefits

Strategic Risks

Of the strategic risks recorded Commercial Plans and Information Governance remain the highest risks for the Council.





Our audit plans include providing assurance over our key financial systems, this is done on a cyclical basis; however the level of risk will also influence frequency.

Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts.

During the year we reviewed:

- Budget Management – **High Assurance**
- Financial Strategy & Budget Preparation – **High Assurance**
- Sales & Invoicing Follow Up – **Substantial Assurance**
- Commercial Planning Follow Up – **Substantial Assurance**
- Investment Programme – **Substantial Assurance**
- Key Control Testing Payroll – **Substantial Assurance**
- Key Control Testing Insurance – **High Assurance**
- Key Control Testing VAT – **High Assurance**
- PCI DSS – **Substantial Assurance**

Key control testing and assurance mapping across the financial control areas continues to provide positive assurance for the Council.

Lessons learned from the Northamptonshire County Council (NCC) failure have also been considered.

The 2019/20 annual audit plan covers key areas raised in the NCC failure for further assurance to the Council. Including planned reviews on Financial Resilience, Corporate Plan awareness and Project Delivery.

**The Financial
Control
assurance
remains the
same**



**Assessed as
Performing
Well**

Our Work



The Council is responsible for establishing and maintaining risk management processes, control systems and governance arrangements. Internal Audit plays a vital role in providing *independent risk based and objective assurance* and *insight* on how these arrangements are working. Internal Audit forms part of the Council's assurance framework.

Scope of Work

Our risk based internal audit plan was prepared taking into account the critical activities and key risks to support the basis of my annual opinion. It has remained flexible to enable us to respond to emerging risks and maintain effective focus.

The Audit Committee approved the 2018/19 original audit plan of **190 days** in March 2018. We have delivered **97%** of the plan.

We have worked closely with the Council's senior management team to agree audits scopes and to ensure audit work is progressed.

I do not consider there to have been any restrictions or changes to the plan that have had an adverse effect on my ability to deliver my overall opinion. The combined assurance model adopted by the Council helped in this regard.

We have not experienced any impairment to our independence or objectivity during the conduct and delivery of the Internal Audit Plan.

Restriction on Scope

In carrying out our work we identified no unexpected restrictions to the scope of our work. We have had minor difficulties in gaining access to some staff which resulted in some delay or inability to deliver planned work within the expected timescales.



Our Work



Internal Audit's role include advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Other Significant Work

During the year we have undertaken Grant Sign Off work including testing **Housing Benefit Subsidy**. Our testing found **no** errors and received High assurance for the way the Council administers Housing Benefit.

We completed our annual refresh and coordination of Combined Assurance which maps all assurance across the Council using the 'three lines of assurance' model. This provided the Council with insight over the assurances present on its critical activities, key risks, projects and partnerships.

We have continued to support the Council's assurance framework with consultancy work – this is where we give support and advice on governance, risk and control but do not provide an assurance opinion :-

- **ARCUS system Review** – We reviewed how the Council had procured and managed the project to install the ARCUS system and the process of halting this project.
- **Leisure Contract** – Review, support and advice on the Council's management of the new leisure contract .
- **ICT Capacity & Capability** - A joint review with NKDC to review the current and future needs of the Council's ICT departments.





We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards (PSIAS). We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.

Quality Assurance

Our commitment to quality begins with ensuring that we recruit develop and assign appropriately skilled and experienced people to undertake your audits.

Our audit practice includes ongoing quality reviews for all our assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.

There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings.

Assurance Lincolnshire conforms to the UK Public Sector Internal Audit Standards. An External Quality Assessment was undertaken in September 2016. No areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity was identified.

Our quality assurance framework helps us maintain a continuous improvement plan, which includes the following:

- Update Internal Audit Charter and practice manual following revision of PSIAS in April 2017 and CIPFA Application Note published March 2019
- Working with senior management improve progress and delivery monitoring / audit scheduling
- Continuing professional development around new and emerging practice guidance.
- Benchmarking practice against CIPFA's 'Role of Head of Internal Audit' – published April 2019.

Although internal and external auditors carry out their work different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work where it is appropriate.



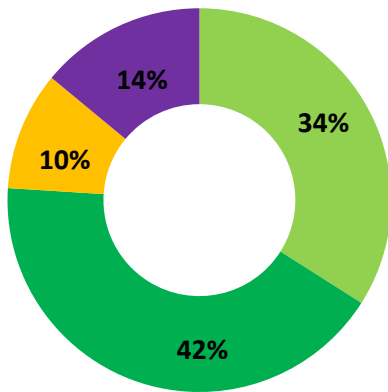
Assurance Lincolnshire were winners of CIPFA's Public Finance Awards 2019 for its work around Governance - culture and values.



Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment and forms part of the evidence that helped inform the overall annual opinion.

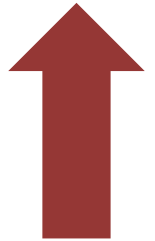
Assurances

2018/19

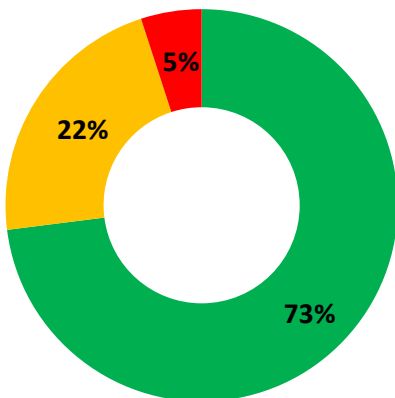


- High
- Substantial
- Limited
- Consultancy

34% Increase in High Assurance on last year



2017/18



- Substantial
- Limited
- Low

%

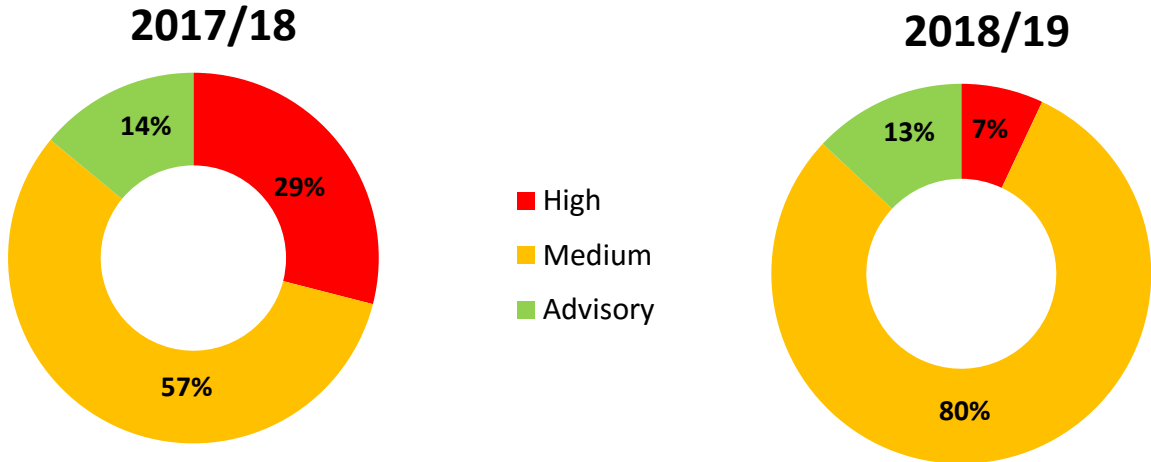


17% Fall in Low and Limited Assurance on last year



Comparison of internal audit recommendations made 2017/18 and 2018/19. We can see that the priority of recommendation are less urgent than the previous year, with a reduction in high priority and more medium and low priority actions agreed in the service. This information forms part of the evidence that helped inform the overall annual opinion.

Recommendations



Further details can be found at appendix 2





Internal Audit's performance is measured against a range of indicators. The table **Figure 6** shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement delivery of the revised plan and the added value of our work. An area of improvement is around contemporary reporting (timescales).

Performance on Key Indicators

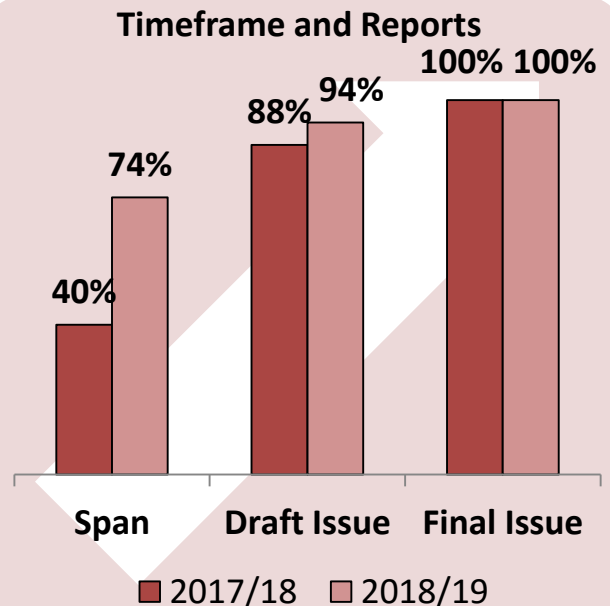
100%

Rated our service Good to Excellent

Significant percentage increases in achievement of Audit KPI's

97%

Of the plan delivered



During the year we have issued a number of limited assurance opinions, in summary these are:

Food Safety and Environmental Protection – our review looked the new management arrangements in place to manage this service. We made recommendations on improvements to resource skills and expertise, performance reporting and updating policy documents.

Planning Enforcement Follow Up – this review followed up on the 2017 audit which gave Limited assurance to Planning Enforcement. We found that some recommendations had not been implemented and made repeat recommendations on improvements to case management and communications with Planners.

Audit	Rating	Type	High	Medium	Advisory	Total
Environmental Protection & Enforcement	Limited	Risk Based Audit	2	5	2	9
Income and Investment programmes	Substantial	Risk Based Audit	0	2	2	4
Growth Programmes from	Substantial	Risk Based Audit	0	6	0	6
Financial Strategy & Budget Prep	High	Risk Based Audit	0	0	0	0
Customer First Programme	Substantial	Risk Based Audit	0	5	1	6
Corporate Planning	Substantial	Risk Based Audit	0	5	1	6
Subsidy Testing	High	Grant Work	0	0	0	0
Budget Management	High	Risk Based Audit	0	1	3	4
ICT Infrastructure	Substantial	Risk Based Audit	0	1	0	1
Good Governance	Not Applicable	Consultancy	0	22	0	22
Leisure Contract	Not Applicable	Consultancy	0	0	0	0
ICT Capacity & Capability	Not Applicable	Consultancy	0	7	0	7
ICT Records Management	Substantial	Risk Based Audit	1	4	0	5
PCI DSS Follow Up	Substantial	Risk Based Audit	1	3	0	4
Follow Up Sales & Invoicing	High	Rusk Based Audit	0	0	1	1

Audit	Rating	Type	High	Medium	Low	Total
Follow Up Planning Enforcement	Limited	Risk Based Audit	2	0	0	2
Follow Up Commercial	Substantial	Risk Based Audit	0	1	0	1
Key Control Testing Insurance	High	Rusk Based Audit	0	0	0	0
Key Control VAT	High	Risk Based Audit	0	0	0	0
Key Control Health & Safety	Substantial	Risk Based Audit	0	0	0	0
Key Control Payroll	WIP		0	0	0	0
			6	63	10	79

Performance on Key Indicators

Performance Indicator	Annual Target	Actual
Percentage of plan completed (based on revised plan)	100%	97%
Percentage of recommendations agreed	100%	100%
Percentage of recommendations implemented	100% or escalated	100%
Timescales:		
Draft Report issued within 10 days of completion	100%	94%
Final Report issued within 5 days of management response	100%	100%
Draft Report issued within 3 months of fieldwork commencing	80%	74%
Client Feedback on Audit (average)	Good to excellent	Good to excellent

High

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

Substantial

Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

Limited

Our critical review or assessment on the activity gives us a limited level of confidence (assurance) on service delivery arrangements, management of risks, and the operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.

Low

Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact.

Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Head of Internal Audit Annual Opinion

The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of a number of individual engagements and other activities for a specific time interval.

Governance

Comprises the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management - plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Impairment

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).