

Internal Audit Annual Report 2019/20



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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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 2020. 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 2020 the Council's arrangements for governance, risk management and control is unaffected by the coronavirus. That said, my opinion needs to be contemporary and take into account its impact on the Council's governance, risk and control environment.

Based on the work we have undertaken and information from other sources of assurance, my opinion on the adequacy and effectiveness of the Council's arrangements for governance, risk management and control is:

This opinion is **caveated** as it is **not possible for us to quantify** the additional risk arising from the Council's response and recovery or the overall impact on the framework of governance, risk management and control.

Governance



Performing Adequately– Some improvements identified over the Council's Governance, Risk and Control framework or to manage medium risks across the Council

Risk



Performing Adequately – Some improvements identified over the Council's Governance, Risk and Control framework or to manage medium risks across the Council

Internal Control



Performing Adequately– Some improvements identified over the Council's Governance, Risk and Control framework or to manage medium risks across the Council

Financial Control



Performing Adequately – Some concerns that may affect the Financial 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.

During 2019/20 the Council reviewed progress against the significant issues identified in the 2018/19 Annual Governance Statement which were:

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

A six monthly update report was provided to Governance & Audit Committee. These issues have all been addressed.

The 2019/20 Annual Governance Statement has not been drafted as at the time of writing this report. Significant issues have yet to be determined however early indications of what may be reflected within the report include:

- Implementation of the senior management restructure

- Delivery of a climate and sustainability strategy
- Recovery response to Covid-19

The onset of Covid19 and subsequent lockdown has had a significant impact on all areas of the public sector. The impact on governance will be felt by all organisations for example changes to decision making arrangements and the conduct of meetings. Other aspects will reflect changes to the organisation's priorities and programmes.

We note that the Council's governance arrangements have adapted well to the emergency but as full impact of the coronavirus is largely unknown but we recommend that the Annual Governance Statement includes a significant governance issue - reviewing lessons learned from its response.

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



"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.

During the year the Council took part in a peer review which was undertaken by the LGA. A report was produced in January 2020. This identified a number of good working practices within the Council.

The report stated : *'Governance has improved and has been sustained generally as evidenced through annual internal and external governance statements, other related documents and meetings with relevant councillors, officers and external audit. There is a culture of honesty at the council in which issues can be raised, discussed and are able to be resolved before they escalate.'*

We undertook a Follow up review of our 2018 audit of Governance – Culture & Values. This showed that all actions had been implemented which enables us to provide assurance that good culture and values continues to be applied to Council work and that it is embedded in Council thinking and decision making.

The Council has refreshed its Corporate Plan to run from 2019 to 2023. The Corporate Plan underpins all that the Council does and has a 3-way focus; Our Council, Our People and Our Place.

The outbreak of Covid-19 has had a significant impact on the Council in terms of Finance, resource and governance. The future is not what we thought it would be a few months ago – the Council will need to reset its Corporate Plan and service delivery model.

The Council has had to respond swiftly to the ever changing environment to deliver new and existing operations. The governance framework in place has operated adequately in these challenging times.

Governance assurance



Assessed as Performing Adequately

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.

It is **not possible to quantify** the additional risks arising from the Council's response and recovery to Covid-19 or the overall impact on the framework of governance, risk management and control.

What we can confirm is that there are established structures and processes for identifying, assessing and managing risk and these remain effective.

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

In April & May 2019 Assurance Lincolnshire supported the Council in facilitating strategic risk workshops focusing on risk appetite. This involved Management Team and Leaders Panel. The outcome of these sessions provided an overall assessment of the Council's collective risk appetite as "Creative and Aware."

Risk Management is regularly monitored by Management Team and the Governance and Audit Committee.

During the year the Strategic Risk register was reviewed by Management Team in September 2019 and Governance & Audit in October 2019. Within the same meetings the Risk Management Strategy 2019-2023 which takes into account the Council's Corporate Plan (2019-2023), was also approved.

We can confirm that there have been no significant risks identified during the delivery of our audit work.

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

Risk Management assurance



Assessed as Performing Adequately

Internal Control



We take account of the outcome of our audit work during the 2019/20 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.

Our opinion is based on a number of sources of intelligence including the outcome of our internal audit work, through the combined assurance work and other sources.

Whilst the control environment up to 31st March 2020 has largely been unaffected by the coronavirus - emergency measures implemented have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. The full impact is unknown and some post assurance will be required.

Positive assurance levels continue to be in place for the Council's systems . 83% of all assurance work provided a positive opinion.

There were two areas where we gave a **Limited assurance** opinion this year - Vulnerable Communities and Golden Thread. This is the same number of limited opinions as last year.

A summary of this audit can be found in appendix 1

During the year we have made 27 recommendations for improvement – there are no over due actions to report up to the 30.4.20.

There are 31 actions being worked on (including 4 outstanding from prior year audits) 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



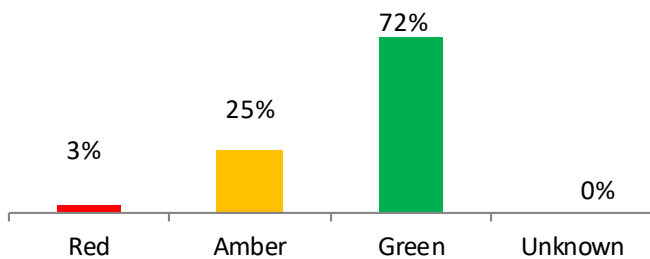
Assessed as Performing Adequately



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 Governance & Audit Committee and provide key assurance evidence to support the Head of Internal Audit opinion.

Combined Assurance Status Report

**Overall Assurance Status
2019/20**



We help co-ordinate the Council's assurance intelligence. The overall assurance status is positive with the majority of areas continuing to receive a Medium (amber) or High (Green) level of assurance.

There has been a minor increase in low levels of assurance and these areas are:

Key Projects

Agri Food Sector

Emerging Risks

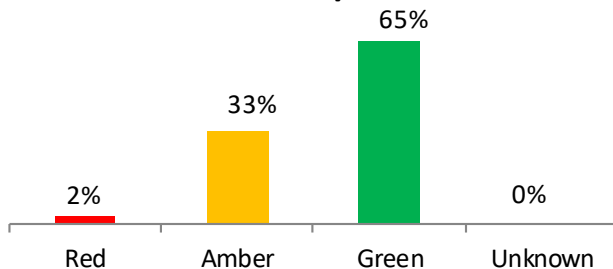
Strategic Capacity

Strategic Risks

Inability to raise local educational attainment and skills levels

This data was collected before emergency of the coronavirus.

**Overall Assurance Status
2018/19**



**High levels of assurance
have increased by 7% since
2018/19**



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:

- Key Controls – Financial Resilience **High Assurance**
- Key Controls – Debtors **In progress**
- Key Controls – Creditors **Indicative opinion – Substantial Assurance**

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

In December 2019 the Corporate Policy and Resources Committee approved the acquisition of a new Enterprise Resource Planning system for Finance which would replace the current Finance system which has been in situ since 1999.

We are aware that this project has been put on hold as a result of Covid-19 however we will support the Council with this project in due course.

The impact of Covid-19 will have a major impact on the Council's finances. This impact is unlikely to be fully realised until recovery is complete. The combination of remote working, staff redeployment and the swift introduction of new processes heightens the risk around financial control.

Financial Control



Assessed as Performing Adequately

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 2019/20 original audit plan of **190 days** in March 2019. We have delivered **91%** of the plan.

Restriction on Scope

In carrying out our work we identified no unexpected restrictions to the scope of our work.

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

The onset of Covid-19 meant that the full plan could not be completed before the end of April as planned. However, we continue to work with management to

finalise the outstanding pieces of work as promptly as possible.

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.



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 identified one error which led to a small prior year overpayment . This error was not deemed material and so overall 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 :-

- We have provided support during the initial stages of the **Waste Depot project development** . We attended the Depot Project Group, advising and supporting on the governance arrangements as well as reviewing the Terms of Reference.
- **Portfolio, Programme and Project Management (P3M3)** is a internationally recognised review system for testing an organisations maturity in managing programmes of work. We provided support during this review by attending three programme board meetings and independently providing challenge and advice during these sessions. Reports were produced by the Performance and Programmes Team which provided outcomes of the work completed.



Our Work



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 supervisory 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 and preparations are underway for the next assessment in 2021. 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.

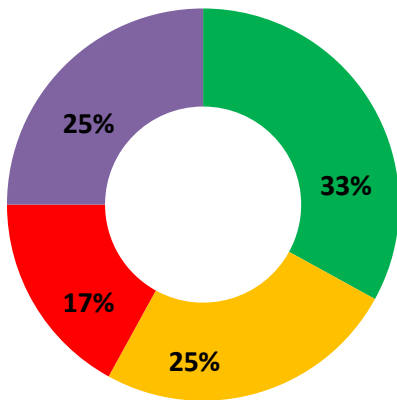




Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment and forms part of the evidence that helped inform the overall annual opinion.

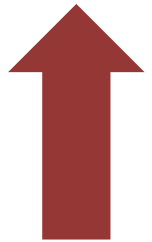
Assurances

2019/20

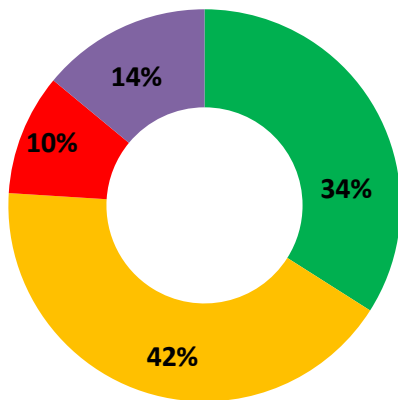


- High
- Substantial
- Limited
- Consultancy

No Low assurance opinions



2018/19



- High
- Substantial
- Limited
- Consultancy

Number of Limited assurance opinions remain the same (2)

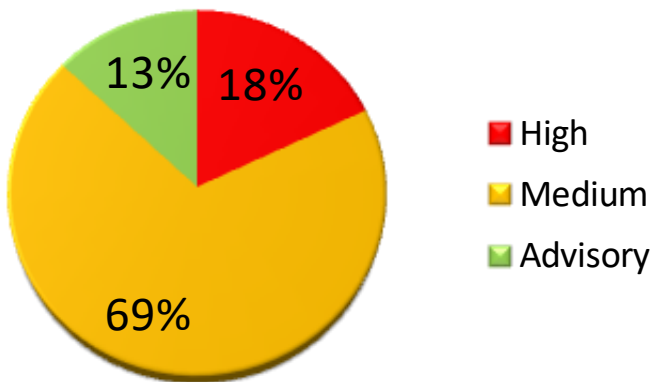




Comparison of internal audit recommendations made 2018/19 and 2019/20. We can see that the overall % of high and medium priority actions has remained the same. There has been an increase in high priority actions. This information forms part of the evidence that helped inform the overall annual opinion.

Recommendations

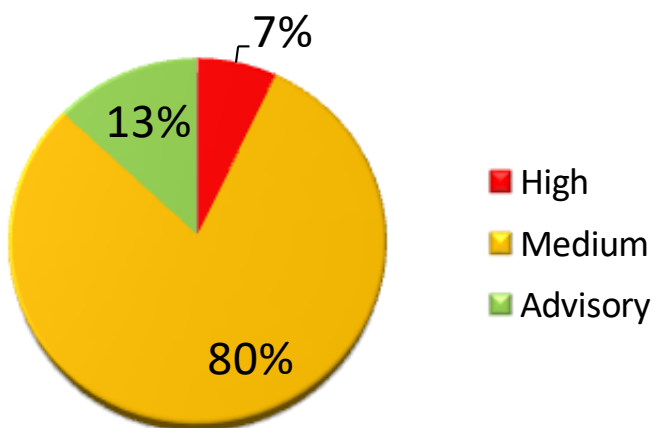
2019/20



11%

Increase in high priority findings

2018/19



Total % of medium actions has reduced





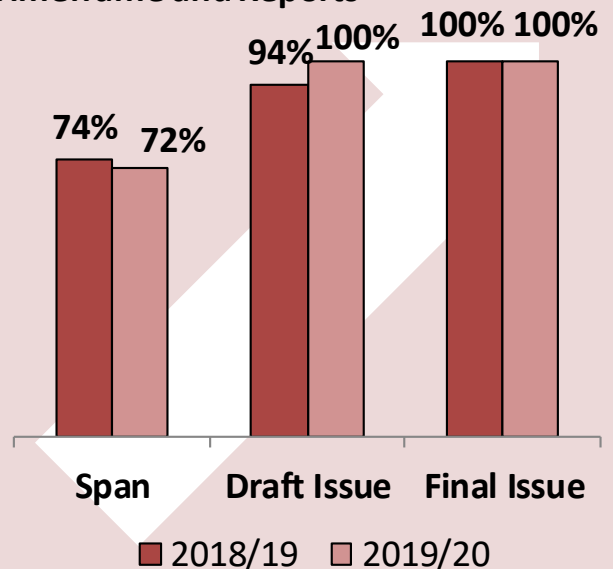
Internal Audit's performance is measured against a range of indicators. The table **Appendix 3** shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement delivery of the revised plan and the added value of our work.

Performance on Key Indicators

0%
**Good
achievement of
Audit KPI's**

91%
**Of the plan
delivered**

Timeframe and Reports



During the year we have issued two limited assurance opinions, in summary:

Vulnerable Communities

Our review looked at the Council's strategic approach to supporting and identifying vulnerable communities.

Specific issues included:

- Operational risk management arrangements to be improved to help focus on mitigating risks specific to the achievement of the strategy
- Increased coordination between the managers of each service to ensure that the overall Vulnerable Communities strategy is being implemented.
- Performance reporting to be enhanced through introduction of measures which will feed into an annual report
- Opportunity for the approval process for interventions to be streamlined.

Following this review we agreed a detailed action plan with management and a follow up review will be completed in 2020/21

Golden Thread

Our review looked at whether the Golden Thread exists within the organisation and that managers, services and individuals understand their contribution to corporate objectives.

Specific issues included:

- Where departments have a shared purpose, there is a lack of awareness of these links and also how staff roles impact the corporate objectives.
- Improvements around communicating corporate objectives from the top down
- Objectives for service plans and appraisals to be more strongly aligned to the corporate plan objectives
- Improved association and acknowledgement of team achievements and their impact on the contribution to the fulfilment of the corporate plan.

Audit	Rating	Type	High	Medium	Advisory	Total
Vulnerable Communities	Limited	Risk Based Audit	1	6	0	7
Members Devices (joint with NKDC)	Substantial	Risk Based Audit	1	2	2	5
Housing Benefit Subsidy	High	Grant Work	0	0	0	0
Combined Assurance	Complete	Consultancy	0	0	0	0
Programme and Project Management	Substantial	Risk Based Audit	2	6	1	9
Key Controls - Financial Resilience	High	Risk Based Audit	0	2	0	2
Good Governance Follow Up	High	Risk Based Audit	0	0	0	0
IT Cyber Security	In progress	Risk Based Audit				
Planning Enforcement Follow Up	High	Risk Based Audit	0	0	0	0
Food Safety and Environment Protection Follow Up	Indicative Opinion – Substantial	Risk Based Audit				
Key Controls Testing - Creditors	Indicative Opinion - Substantial	Risk Based Audit				
Key Controls testing - Debtors	In progress	Risk Based Audit				
ICT PSN Compliance	Postponed until 20/21	Risk Based Audit	0	0	0	0
Corporate Plan Delivery & Golden Thread	Corporate Plan – Substantial Golden Thread - Limited	Risk Based Audit	0	4	0	4
P3M3 Project Management Support	Complete	Consultancy	0	0	0	0
New Depot Project Support	Complete	Consultancy	0	0	0	0
			4	20	3	27

Performance on Key Indicators

Performance Indicator	Annual Target	Actual
Percentage of plan completed (based on revised plan)	100%	91%
Percentage of recommendations agreed	100%	100%
Percentage of recommendations implemented	100% or escalated	100%
Timescales:		
Draft Report issued within 10 days of completion	100%	100%
Final Report issued within 5 days of management response	100%	100%
Draft Report issued within 3 months of fieldwork commencing	80%	72%

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 on service delivery arrangements, management of risks, and 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).