

Internal Audit DRAFT Progress Report



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West Lindsey District Council December 2020

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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.

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period September 2020 to November 2020
- Advise on progress of the 2019/20 and 2020/21 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have issued two reports and we have four audits at draft report stage.

Two new audit areas have been included within the audit plan, utilising the previously deferred audit time:

- Covid 19 related Business Grants
- Together 24

We would like to bring to Members attention a number of guides and reports that have recently been produced including:

- Risk focus for 20/21
- Covid-19 Guide for Audit & Risk Committees
- Redmond review
- Guide for Audit and Risk Committees on financial reporting and management during COVID-19

These guides set out some key areas of focus and areas where Members may wish to seek assurance. A summary of each report/guide can be found within the 'Other Matters of Interest' section of this report.

Work completed

The following audit work has been completed and a final report issued:

Assurances

- Treasury Management – High Assurance
- ICT Cyber Security – Substantial Assurance (Joint review across West Lindsey & North Kesteven District Councils)



High Assurance

Our review of the effectiveness and efficiency of the controls in place across Treasury Management has provided a High Assurance opinion.

This audit has been carried out at a time when the Council had introduced alternative working arrangements as a result of the Coronavirus pandemic. Staff have been working from home and have continued their working practices to ensure controls in place remain appropriate and transactions are suitably authorised and follow the Council's Treasury Management procedures. Through discussion and testing we did not identify any areas of concern.

At the beginning of April 2020 the Council received significant amounts of funding from the Government to be passed on as Covid 19 related Business Grants. As a result a large amount of cash had to remain in liquid investments. Action was taken in advance by the Treasury Management Team via delegated decision to increase the Council bank account limits and short term investments limits to maintain liquidity.

During our review we confirmed that:

- Current Treasury Management Strategy was approved in line with the constitution at Full Council
- Borrowing and investments follow both the prudential and treasury indicators detailed in the Budget Book and operational guidance in the Treasury Management Procedures
- Treasury Management procedures and indicators such as counterparty lists, bank account limits and investment limits are embedded within the daily authorisation process
- Independent authorisation of daily Treasury Management requirements and Money Market investment is in place
- Monthly benchmarking is in place that provides oversight to the Treasury Manager on how the Council is performing against 10 other Local Authorities
- Records enable performance reporting such as investment earnings rates as part of the in year and end of year Treasury Management Report to Governance and Audit Committee and Full Council. This is in line with the constitution

Treasury Management

Substantial Assurance

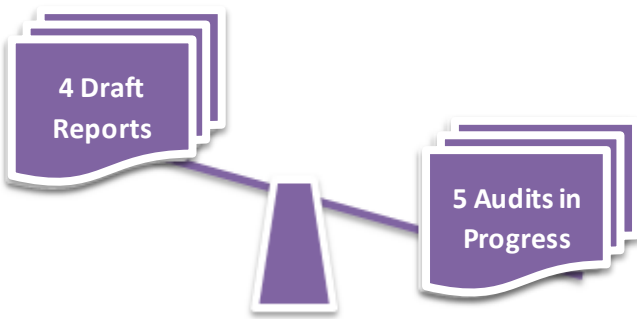
In undertaking this review of Cyber Security we have considered the 12 key areas highlighted by the National Cyber Security Centre (NCSC) and National Audit Office (NAO) as being relevant to Cyber Security and completed a high level review of each one.

Overall, the arrangements for managing Cyber Security risk are good, particularly at an operational level. As a result we are giving an audit opinion of **Substantial Assurance**.

There are two High priority recommendations within the report relating to Risk Management and Disaster Recovery. We found that Risk Management processes could be improved by considering a single coordinated approach across both councils and we identified that a full Disaster Recovery plan is not currently in place for both councils. Disaster Recovery is fundamental and as such this area may benefit from a deeper review to provide assurance that arrangements are effective.

The majority of recommendations made within this report predominantly relate to matters of governance and improving the joined up approach between the ICT service for West Lindsey District Council (WLDC) and North Kesteven District Council (NKDC) which will further assist in reducing the risks around Cyber security as well as achieve other benefits. Management may wish to consider a full review of partnership arrangements in the future to support this further.

ICT Cyber
Security (Joint
review across
West Lindsey
& North
Kesteven)



Audit reports at draft

We have four audits at draft report stage:

- Email Security
- PSN Compliance (Joint with NKDC)
- Homelessness
- Strategic Risk – Inability to raise local educational attainment and skills

Work in Progress

We have the following audits in progress from the 2020/21 plan:

- Crematorium – Fieldwork stage
- Key Project Waste Depot – Fieldwork stage
- Key Project CRM – Fieldwork stage
- ICT Helpdesk – Planning stage
- Key Controls testing – Planning stage

Other Significant work

Combined Assurance

The annual Combined Assurance process is underway with engagement and discussions taking place with relevant staff across the Council.

Critical activities, key risks, key partnerships and key projects will be identified and assessed through our systematic risk scoring process and rated Red, Amber or Green (RAG) to create a clear visual map of assurances across the organisation. The results of this will be reported to senior management and the Governance & Audit Committee through the Combined Assurance Report. It will also support the Audit Team in developing the 21/22 Internal Audit Plan.





Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators as at 30 November 2020

These key performance indicators are based on the 2020/21 audit plan commencing in Q2 and work being completed across three quarters of the year.

Performance Indicator	Year-end Target	Standard Profile Target*	20/21 Profile Target**	Actual as at 30 November
Percentage of revised plan completed	100%	66%	44%	47%
Percentage of recommendations agreed	100%	100%	100%	100%
Percentage of recommendations implemented	100% or escalated	100%	100%	100%

Definitions

*Standard profile target – This is the usual target where audits are scheduled and completed across 12 months

**20/21 profile target – This is the target based on the plan commencing in Q2 and work being completed across 9 months. This profile target does not take into account any Covid- 19 related delays



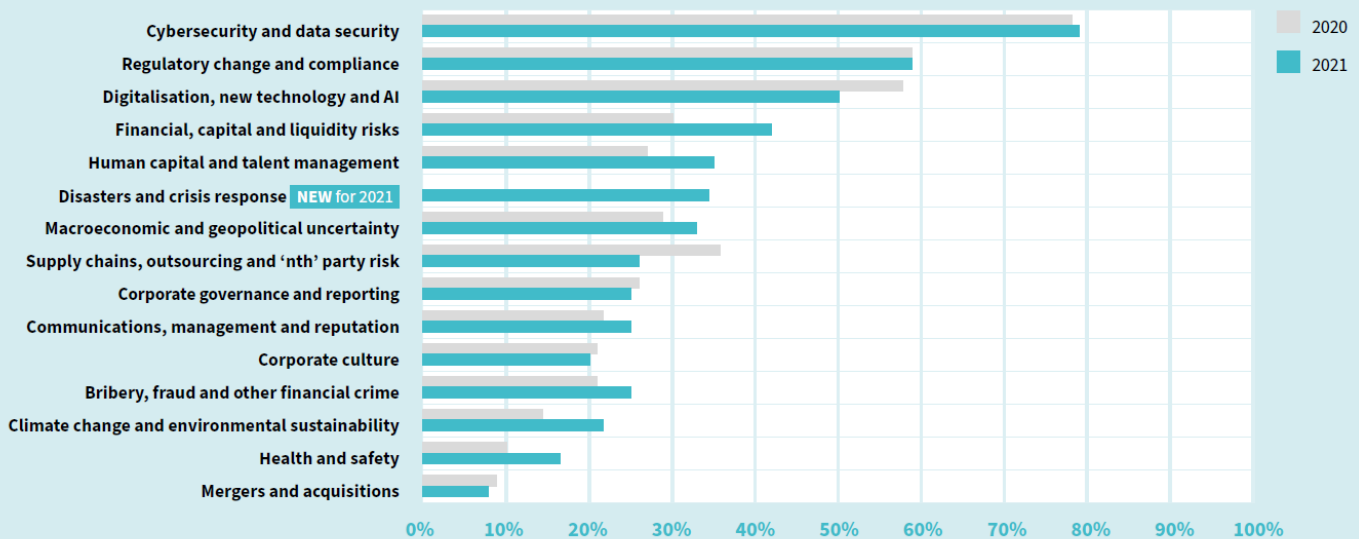
Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

Risk in Focus 2021

This Institute of Internal Auditors (IIA) document highlights key risk areas for organisations moving forward as identified by Chief Audit Executives & Audit Committee Chairs across Europe.

What are the top five risks that your organisation faces?



There is only one new risk for 2021 – Disasters and Crisis Response. Several other established risks have also increased as a result of the pandemic.

The top ten topics raised by this work can be seen to the right.

We will use this information along with the Combined Assurance work to form next years Audit Plan. The document can be provided in full on request.

The topics are as follows:

1. Information security in the expanded work environment
2. Regulatory forbearance and the return to normal
3. Strategic relevance and the digital imperative
4. Liquidity risk and cost-cutting amid depressed demand
5. Managing talent, staff wellbeing and diversity challenges
6. Disaster and crisis preparedness: lessons from the pandemic
7. Rising nationalism and social tensions amid unprecedented economic volatility
8. Supply chain disruption and vendor solvency
9. Fraud and the exploitation of operational and economic disruption
10. Climate change: the next crisis?



Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

Guide for Audit and Risk Committees on financial reporting and management during COVID-19

This best practice document was produced by the National Audit Office. It aims to help audit and governance committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. This includes the key areas:

1. Annual reports;
2. Financial reporting;
3. The control environment
4. Regularity of expenditure

It provides the audit committees with reasoning as to how Covid-19 may have affected certain procedures, how the Authorities may have adjusted their processes to mitigate these issues, and most importantly the key questions the Committee can ask to gain assurance in these areas.

The document can be provided in full on request.

Redmond Review

There has been an independent review into the oversight of Local Audit and the transparency of Local Authority financial reporting. This was published in September 2020. Key findings include:

- concerns expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms.
- the current fee structure does not enable auditors to fulfill the role in an entirely satisfactory way
- there is merit in authorities examining the composition of Audit Committees in order to ensure that the required knowledge and expertise are always present when considering reports, together with the requirement that at least an annual audit report to be submitted to Full Council.
- a key recommendation is to create a new regulatory body responsible for procurement, contract management, regulation, and oversight of local audit. It is recognised that the new body will liaise with the Financial Reporting Council (FRC) with regard to its role in setting auditing standards.

The document can be viewed online - <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

Internal Audit in Lockdown - The impact of the coronavirus pandemic on internal audit teams in the UK and Ireland

This IIA document provides an insight of how Chief Audit Executives are coping with working in the current environment, and their thoughts on the long term impacts. Data was gathered through surveys and interviews.

Key Findings

33%

A third of respondents have had their working hours increased.

15%

indicate all or part of the internal audit function has been put on furlough.

46%

say internal auditors have been redeployed to the first and second lines.

2%

2% of respondents say internal auditors have been made redundant.

43%

Where affected by redeployment furlough, or redundancy, 43% say their Audit Committee Chair has been consulted.

35%

of respondents said their Audit Committee Chair has not been consulted on the changed role of internal audit, whilst 22% said they did not know.

78%

of internal auditors are in touch with their Audit Committee Chair on either a daily, weekly or monthly basis, with over half (55%) indicating on a monthly basis.

63%

advise the coronavirus did not have any impact on regulatory requirements, with 20% saying they were unsure and 17% indicating they were having challenges meeting regulatory requirements.

61%

plan a lessons learned audit or specific audit on their organisation's response to coronavirus.

This document can be provided in full on request.

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.

Details of overdue Audit Actions at 30 November 2020

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	

There are no overdue actions to report

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Strategic Risk – Inability to raise local educational attainment and skills levels	To review the controls and planned controls the Council has to mitigate and manage this key strategic risk.	Q2 July – Sept 2020	September 2020		Draft report
Homelessness	The homelessness strategy is delivered to achieve targets on prevention and that statutory obligations are fulfilled.	Q2 July – Sept 2020	August 2020		Draft report
Treasury Management	Provide Assurance on the Councils Treasury Management processes and controls around borrowing, investment and cash flow.	Q2 July- Sept 2020	August 2020	November 2020	High Assurance
Housing Benefit Subsidy	Test a sample of benefit cases on behalf of the external auditor to provide assurance on the subsidy claimed by the Council.	Q2 July- Sept 2020	July 2020	August 2020	High Assurance
Combined Assurance	Completing the integrated assurance mapping process for the Council by helping to map assurance against critical activities and key risks. Helping coordinate the development of the annual status report.	Q2/ Q3 July- Dec 2020	November 2020		Fieldwork
Key Project – Waste Depot	Provide assurance over the management and delivery of the Council's key project	Q3 Oct- Dec 2020	November 2020		Fieldwork
Key Project – CRM (Customer Relationship Management System)	Provide assurance over the management and delivery of the Council's key project	Q3 Oct- Dec 2020	October 2020		Fieldwork
Crematorium	Provide assurance that the operational arrangements for the Crematorium are robust effective and efficient.	Q3 Oct- Dec 2020	September 2020		Fieldwork

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
ICT – PSN Compliance	Joint review with NKDC to review the Council's compliance with standards and best practice	Q3 Oct- Dec 20	October 2020		Draft report
ICT – Email Security (2019/20)	To review the Councils compliance with standards and best practice	Q3 Oct- Dec 20	October 2020		Draft report
Key Controls Testing – General Ledger, Council Tax & VAT	To provide assurance that key controls are in place and operating effectively	Q4 Jan – Mar 20	November 2020		Planning
ICT Helpdesk	<p>Joint review with NKDC to review the effectiveness and efficiency of the helpdesk</p> <p>The previously unallocated ICT days have been added to this review to enable a deeper dive into Performance & Delivery</p>	Q4 Jan – Mar 20	November 2020		Fieldwork
Audit Follow up work	Follow up 2019/20 limited assurance areas to provide assurances that improvements have been implemented	Q4 Jan – Mar 20			
Covid 19 Business Grants	To provide assurance over claims in relation to the Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grants (RHLG).	Q4/Q1 Mar- Jun 21			

2020/21 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Together 24	To provide assurance over the governance arrangements in place	Q4 Jan-Mar 21			
Contingency	Areas to be confirmed and agreed but may include Post Covid-19 assurance work	Q4 Jan- Mar 20			

Removal of audits from the Plan

Audit	Rationale	Change	Approval
Key Project – Enterprise Resource Planning System (ERP) (10 days)	The Council was due to sign a contract for the implementation of an ERP finance system on 31.3.2020, however, due to the Covid-19 pandemic and the uncertainty around the financial impacts, Management Team made the decision to put the project on hold.	Deferred until 2021/22. Days will be allocated to other areas of focus – to be agreed	Governance & Audit Committee - 16 th June 2020
ICT – ERP system (10 days)	The Council was due to sign a contract for the implementation of an ERP finance system on 31.3.2020, however, due to the Covid-19 pandemic and the uncertainty around the financial impacts, Management Team made the decision to put the project on hold.	Deferred until 2021/22. Days will be allocated to other areas of focus – to be agreed	Governance & Audit Committee - 16 th June 2020
Wellbeing Lincs (8 days)	Joint review with NKDC and ELDC. Both ELDC & NKDC have also agreed to postpone this review. Wellbeing Lincs has been and remains pivotal during the Covid-19 pandemic and continues to work very closely with the community and other partners. Consideration to defer this review to 21/22 will allow the service to focus on the recovery phase and our audit can then review the effectiveness of the Council's elements of the contract during and post Covid-19.	Deferred until 2021/22. Days will be allocated to other areas of focus – to be agreed	Governance & Audit Committee - 16 th June 2020

Addition of audits to the plan

Audit	Scope	Change	Approval
Covid 19 Business Grants	<p><i>The purpose of this audit is to provide assurance over claims in relation to the Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grants (RHLG).</i></p> <p>Our review will focus on the end-to-end process of the business grant funding from receipt of application to issue of payment and any post-event assurance undertaken. We will review a sample of applications received, undertaking due diligence on banking, business and applicant details.</p>	Addition	Management Team
Together 24	<p><i>To provide assurance that the Governance arrangements are effective</i></p> <p>Together 24 is the new transformational programme which aims to deliver its objectives via a series of technology-led service reviews in all front and back office service areas, it follows the closure of the Customer First programme</p>	Addition	Director of Corporate Services