

Internal Audit Annual Report 2020/21



West Lindsey District Council



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

Introduction

For the twelve months ended 31 March 2021, the working practices have changed as a result of the coronavirus pandemic. Operationally, priorities changed during the year, staff have increased remote working and been redeployed to other service areas and financially the Council has had to regularly review and revise its budgets to meet the changing needs of the organisation and its residents.

My opinion needs to take into account the impact of this on the Council's governance, risk and control environment. In doing this we rely on a number of sources of intelligence including the results of the Council's combined assurance work. It is worth noting that whilst this work contained an increase in the level of Amber assurances this demonstrates the objectivity of Managers in assessing the


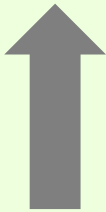

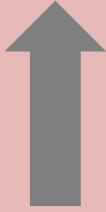




assurance levels and should not be considered negatively.

Emergency procedures were instigated by Government during 20/21 which included the approval of legislation to allow Council committee meetings to be held virtually.

Our audit work primarily commenced in quarter 2 and during the year, as the risks faced by the Council changed, we reviewed and revised our audit plan where necessary to reflect the impact of these.

Annual opinion

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:-

		Direction of Travel
Governance 	Performing Well – No concerns that significantly affect the Council's governance and control framework.	
Risk 	Performing Well – No concerns that significantly affect the risk management framework.	
Internal Control 	Performing Adequately – Some improvement required to manage a high risk in a specific business area and medium risks across the Council.	
Financial Control 	Performing Well – No concerns that significantly affect the financial control framework.	





"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.

Covid-19 and subsequent lockdowns has had a significant impact on all areas of the public sector. The impact on governance has been felt by all organisations including changes to decision making arrangements and the structure of meetings. The Council already had agile working arrangements in place for staff which helped to reduce some of the impact around working from home; staff have stepped up to ensure that services have not been adversely affected and Government guidelines implemented. Covid has also impacted on the organisation's priorities and programmes. The Council has had to respond swiftly to the ever changing environment to deliver new and existing operations. The AGS sets out that the Council's Constitution provided a robust framework from which revised arrangements were drawn up following delegated decisions.

During 2020/21 the Council reviewed progress against the significant issues identified in the 2019/20 Annual Governance Statement which were:

- Senior Management restructure
- Production of a strategy on Sustainability, Climate Change and the Environment.
- Effectiveness of the Governance and Audit

Committee

- Post pandemic recovery response and plans
- Review of procedures for the effectiveness and understanding of corporate procurement.
- Maintain oversight and assurance of the peer review action plan.

An update report was provided to Governance & Audit Committee in April 2021. Issues that have been removed from the AGS action plan as complete are the management restructure, production of the Council's Climate and Sustainability Strategy and some issues arising out of effectiveness of Governance & Audit Committee survey. Matters relating to the remaining three issues have been carried forward to 2021.

The 2020/21 Annual Governance Statement has been drafted and the additional significant areas include:-

- Ensure compliance to meet the standards of the Financial Management Code
- Produce a Cultural Strategy
- Clarify what 'social regeneration' means to the Council, what it will deliver and how to resource it.

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.

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.

The action plan from the LGA Peer review carried out in 2019 was considered by the Governance and Audit Committee in April 2021. Most have been enacted with the following in progress:-

- Clarify what 'social regeneration' means to the Council – March 2022
- Ensure next version of the Local Plan includes the key risks
- Ensure a structured approach to workforce and succession planning
- Consider a cultural strategy – April 2022

In March 2020, Members of the Governance and Audit Committee undertook a survey to assess the effectiveness of the Committee. The Committee agreed to form a working group to further review the findings and devise an improvement plan which the Committee would oversee. Progress has been made on these actions which included:-

- Review Committee Terms of Reference
- Determine whether reports require an executive summary.
- Provide financial training the members
- Appraise the interests and experience of members. When appointing review the skills/experience required.

- Improve level of scrutiny and assurance seeking – pre-committee meetings and questioning.

The Monitoring Officer reported that the Constitution performed well, already including many of the delegations required during an emergency situation.

We undertook a Governance Review of culture and values in 2018 – this showed that there was a good culture and ethical framework which was working for the Council & key partners. This was followed up in 2019 and increased to there being a good culture and values which continue to be applied to Council work and that it is embedded in Council thinking and decision making. We will be following up with a further of Governance in 2022/23 including a review against the Governance, Risk and Resilience Framework issued by the Centre for Public Scrutiny in March 2021.

We have concluded that the governance framework in place has operated well in these challenging times.

Governance assurance



Assessed as Performing Well

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.

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

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

Risk Management is regularly monitored by Management Team and is reviewed by the Governance and Audit Committee on a six-monthly basis.

The Strategic Risk register was reviewed and updated by Management Team in December 2020 and Governance & Audit Committee in January 2021. This review considered Covid-19 and Brexit.

Team Managers have also carried out a review of service risks following the transfer to a new platform.

During the year we reviewed the strategic risk - Inability to raise local educational attainment and skills levels and gave an opinion of **Substantial Assurance**.

We have not identified any significant risks requiring inclusion on the risk registers during the delivery of our audit work.

This information has helped inform the Head of Internal Audit opinion.

Risk Management assurance



Assessed as Performing Well



We take account of the outcome of our audit work during the 2020/21 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.

The combined assurance work carried out showed a decline of 19% in the number of areas awarded high assurance. Within the Combined assurance report management reported that operations are operating as effectively as can be expected through the pandemic although inevitably a number of service areas have been adversely impacted as a result of additional pressure and/or resources being diverted elsewhere. Emergency measures implemented have resulted in a significant level of strain being placed on normal procedures and control environment. The combined assurance work was carried out in November/December during the middle of the pandemic and we recognise that things may have changed, however Covid was not cited as the main reason for the lower level of assurance in the majority of cases. Our opinion remains cautious, however from discussions with management the direction of travel has been reported as positive resulting in an adequate assurance opinion. To increase the level of assurance management should follow-up on the issues raised and be confident that going forward the area will achieve its objectives in a sound control environment.

From the work we have completed 92% of all assurance work provided a positive opinion. There is one area where we anticipate giving a **Limited assurance** opinion this year -

- ICT Helpdesk*
- *Indicative opinion.

This is a reduction from two limited opinions last year.

During the year we have made 48 recommendations for improvement – there are currently no actions which have passed their implementation date and have not yet been implemented. However there are 6 where the dates have now been extended including 1 action from 2019/20. There are 16 actions from this year and 4 from prior years being worked on which are not yet due.

See appendices 1 and 2 for full details of audits completed during the year and changes made to the plan.

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



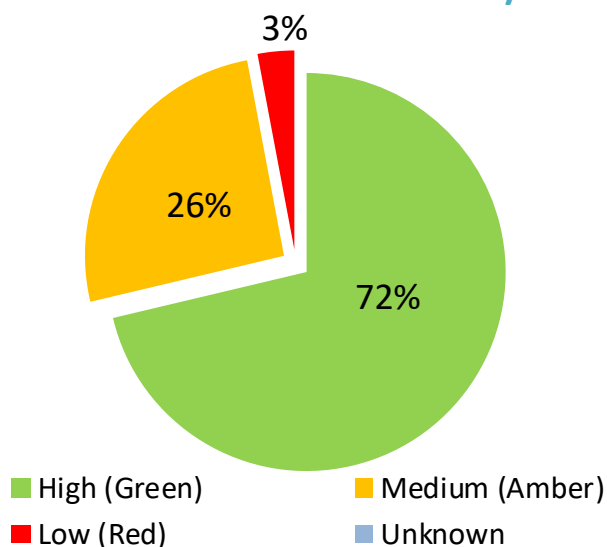
Assessed as Performing Adequately



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

Overall Assurance Status 19/20

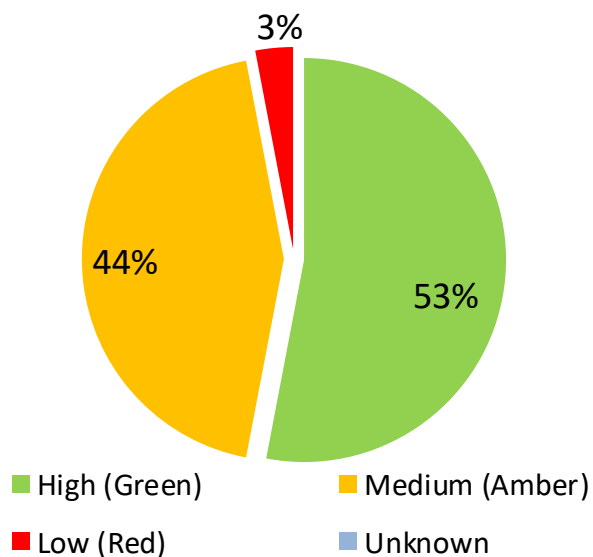


We help co-ordinate the Council's assurance intelligence. The overall assurance status is positive with the majority of areas continuing to receive a Medium (amber) or High (Green) level of assurance.

Whilst high levels of assurance have decreased this is not unexpected given the context of the year with the impact of Covid, resources have been diverted to priority areas which inevitably impacts on the assurance that can be provided to some areas.

The low levels of assurance remain the same in terms of percentage although the areas have changed. These areas are:

Overall Assurance Status 20/21



Transactional Services - Gainsborough Market

Key Projects - Test and Trace

Emerging Risks - Breathing Space legislation

Strategic Risks - ICT Security and Information Governance arrangements are ineffective



High levels of assurance have decreased by 19% since 2019/20



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.

In terms of Financial Control, during the year we reviewed:-

- Key Controls – Council Tax, General Ledger and VAT - **High Assurance**
- Treasury Management – **High Assurance**
- Housing Benefit Subsidy – **High Assurance**
- NNDR (City of Lincoln) – **High Assurance**

Key control testing and assurance mapping across the financial control areas continues to provide positive assurance for the Council. The most recent audits for all of these have provided Substantial/High assurance.

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. The 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 combined assurance work also identified many of the Financial systems as being Green with only a few rated as Amber (Income, Property, plant and equipment, Council Tax, VAT/Tax and Insurance). Some of these were due to the impacts of Covid-19 including reduced income, lower collection rates, suspension of Single Person Discount reviews, reduced enforcement action to collect debts and additional duties taken on by staff within the revenues services. Members have been kept informed of the impacts through the budget monitoring quarterly reports.

The full financial impact is unlikely to be fully realised until recovery is complete. However management have reported that the MTFP remains robust with any shortfalls being dealt with using reserves which have seen an increase this year and additional income has been received from Government Grants which has been distributed. The Council has set-aside £500k to support the ongoing impact of Covid for 2021/22 onwards.

The Council already had remote working processes in place and the financial systems and processes have not changed significantly, with systems having inbuilt controls and segregation of duties.

We have completed a review of Covid -19 Business Grants. Due to the significant value in Business Grants awarded during the year there is an increased risk around fraud and error. Our work is not yet complete but from the work carried out to date the indicative assurance opinion is substantial.

Financial Control



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 & Governance Committee approved the 2020/21 original audit plan of **190 days** in March 2020. We have delivered **93%** of the revised plan of **180 days**.

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

The impact of Covid-19 meant that our full years' audit plan did not commence until quarter 2. As such the full plan could not be completed before the end of April 2021 as planned and so this was extended until the end of May 2021.

I do not consider the restrictions and changes to the plan to have had an adverse effect on my ability to deliver my overall opinion. The combined assurance work undertaken in



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 **Housing Benefit Subsidy testing**. Our testing identified two errors within the same claim which led to an overall overpayment. The errors were 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 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.

During 2020/21 we continued to build upon the strong focus on developing the next generation of audit and risk professionals. We have:

- Continued with an apprenticeship scheme for our audit team which has recently led to an apprentice becoming an Audit officer
- Recently recruited two new Senior Auditors
- Provided acting up roles to two Senior Auditors to Principal level to supporting internal succession planning

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 monthly 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. We are preparing for our next assessment in 2021/22.

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

- Working with client senior management to improve progress and delivery monitoring / audit scheduling
- Continuing professional development around new and emerging practice guidance – including agile assurance.
- Review audit processes in light of SMARTER working to deliver efficiencies, improve productivity and optimise the way we work- including better use of technology / data analytics.
- Future proof the service – building capacity and succession planning.
- Preparing for the External Quality Assessment that is planned for January/February 2022.

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

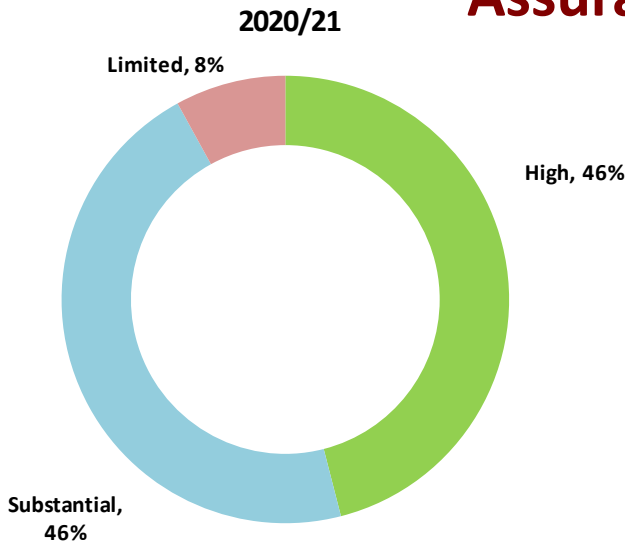
External Audit

Although internal and external auditors carry out their work with 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.



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



Increase in High Assurance on last year

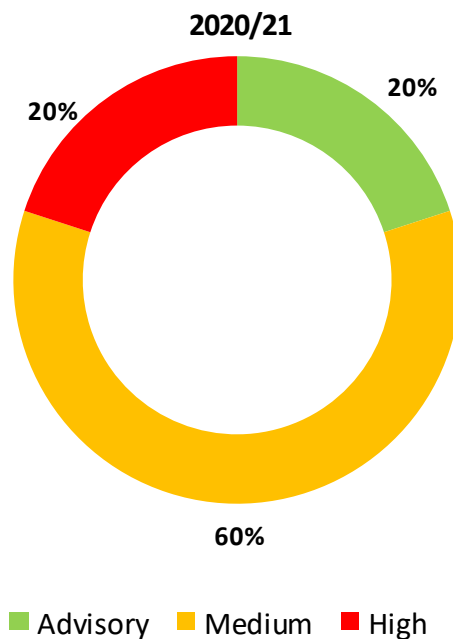
Number of Limited assurance opinions reduced (1)



Recommendations

2%
High priority recommendations have increased

9%
Medium priority recommendations have decreased



Further details can be found at appendix 3

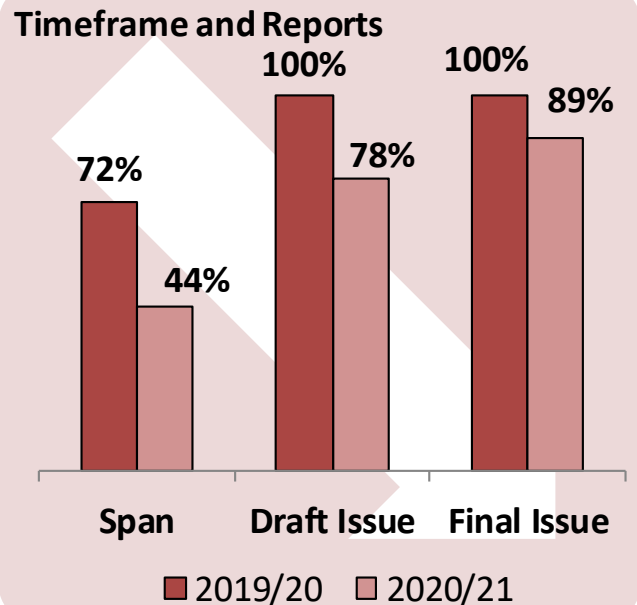


Internal Audit's performance is measured against a range of indicators. The table in **Appendix 3** shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement in the delivery of the revised plan and the added value of our work.

Performance on Key Indicators

93%

Of the plan delivered



Covid-19 has affected some of the timeframes for both the Council and ourselves. Some of the information took longer to provide and remote working during the lockdown caused additional workloads and increased timescales. We also suffered some staffing difficulties and due to Covid-19 we were not able to cover absences.

Audit	Rating	Type	High	Medium	Advisory	Total
IT Cyber Security	Substantial Assurance	Risk Based Audit	4	9	2	15
Strategic Risk	Substantial Assurance	Risk Based Audit	0	2	2	4
Homelessness	Substantial Assurance	Risk Based Audit	0	11	0	11
Treasury Management	High Assurance	Risk Based Audit	0	0	0	0
Housing Benefit Subsidy	High Assurance	Risk Based Audit	0	0	0	0
Key Project - Waste Depot	High Assurance	Risk Based Audit	0	4	3	7
Key Project - CRM	Substantial Assurance	Risk Based Audit	2	1	0	3
Crematorium	Substantial Assurance	Risk Based Audit	0	2	3	5
ICT - PSN Compliance	High Assurance	Risk Based Audit	0	1	0	1
ICT - Email Security (2019.20)	Substantial Assurance	Risk Based Audit	0	5	1	6
ICT Helpdesk Delivery & Performance	Indicative - Limited Assurance	Risk Based Audit	6	1	0	7
Key Controls testing	High Assurance	Risk Based Audit	0	0	1	1
Combined Assurance	N/A	Consultancy	0	0	0	0
Together 24	Ongoing	Risk Based Audit				
Covid 19 Business Grants	Ongoing	Grant Work				
			12	36	12	60

The original approved plan was 190 days – the revised plan was 180 days.

A small number of audits were removed from the original audit plan and this was due to re-prioritising audit resources to those areas of highest risk.

Outlined below are the areas that have been removed from the original plan:

- Wellbeing (deferred until 21/22)
- Key Project/ICT – Enterprise Resource Planning System (deferred until 21/22)
- Audit Follow-up Work (deferred until 21/22)

During the year we were requested to undertake the following additional work:

- Assurance review of Covid 19 Business Grants
- Audit review of Together 24

The annual audit plan remains flexible with a process to postpone and change audits. This means we can adapt our plan and coverage to emerging risks but maintain control and transparency on changes which must be approved by management and the Governance & Audit Committee.

Performance on Key Indicators

Performance Indicator	Annual Target	Actual 2019/20	Actual 2020/21
Percentage of plan completed (based on revised plan)	100%	91%	93%
Percentage of recommendations agreed	100%	100%	100%
Percentage of 2020/21 actions implemented	100% or escalated	100%	100%
Timescales:			
Draft Report issued within 10 days of completion	100%	100%	*78%
Final Report issued within 5 days of management response	100%	100%	*89%
Draft Report issued within 3 months of fieldwork commencing	80%	72%	*44%

*Covid-19 has affected some of the timeframes for both the Council and ourselves. Some of the information took longer to provide and remote working during the lockdown caused additional workloads and increased timescales. We also suffered some staffing difficulties and due to Covid-19 we were not able to cover absences.

Our quality control processes also took longer than anticipated through the pandemic which impacted the prompt issue of draft reports to the Council.

Corrective action is being taken as follows:-

- Co-sourcing arrangements are being formalised to improve staff cover
- Recruitment has been successful and we now have a fully staffed team
- Liaison meetings will be formalised further to ensure that delays are identified and picked up promptly.
- Review of our report process has been completed
- Review of our scheduling and performance framework has been undertaken
- Report writing training will be provided to the team during 2021/22

High	<p>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.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
Substantial	<p>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.</p> <p>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.</p>
Limited	<p>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.</p> <p>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.</p>
Advisory	<p>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.</p> <p>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.</p>

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).