

Internal Audit

Progress Report



**West Lindsey
District Council
October 2022**

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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 May 2022 to September 2022
- Advise on progress of the 2022/23 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

Audit Plan

During the period we have completed six assurance audits and have four further audits in progress.

The six audits which have been completed are:

- Value For Money - High Assurance
- Flood Management - High Assurance
- Key Control and ERP - Substantial Assurance
- ICT Disaster Recovery - Substantial Assurance
- ICT Helpdesk follow up - Substantial Assurance
- ICT Cloud Services - Substantial Assurance

The four audits in progress are:

- Contract Management- draft report
- Staff Resilience - fieldwork
- Levelling Up Fund part 1 (part 2 due to commence in Q4) - fieldwork
- Housing Subsidy - draft report

2

**HIGH
ASSURANCE**

4

**SUBSTANTIAL
ASSURANCE**

0

**LIMITED
ASSURANCE**

0

**LOW
ASSURANCE**

High Assurance

Overall we can provide a high level of assurance that the Council takes all reasonable steps to achieve Value for Money (VFM) in the delivery of its services, specifically in the high-risk areas of identification and implications of financial pressures, maintaining appropriate standards for Members and Officers and evaluating services to identify areas for improvement.

Examples of good practice include:

- A clear process for budget setting, consultation, review, and approval; responsibilities and processes clearly set out within the Council's Budgetary and Policy Framework and Financial Procedures.
- A detailed Medium Term Financial Strategy (MTFS) and 5 year Medium Term Financial Plan (MTFP) that set out a robust framework for the Council's spending plan; these documents, key to the budget setting process.
- Emerging/ongoing financial risks, pressures and savings identified and built into the MTFP and budgets. Submission of quarterly Budget Monitoring Reports to Corporate Policy and Resources Committee ensuring continuous review, scrutiny, and challenge of these.
- Detailed annual business planning carried out by Service Areas, allowing initiatives/projects that will achieve greater value of money or efficiencies to be identified. The financial impacts of approved suggestions clearly reflected in the MTFP/capital programme.
- Evidence of regular detailed performance reporting to the Corporate Policy and Resources Committee, with performance against key measures, areas for improvement and remedial action clearly outlined.
- A detailed VfM Strategy/Handbook exists providing guidance on assessment of value for money; formal approval of the latest version of this document and a further reminder to officers of its existence however is required.

We did identify one that VfM Profiles have not been carried out since 2020/21. Completion of these ensure Service Areas assess their cost and performance and assist in informing the business planning process so have recommended this action. This recommendation was agreed.

Value For Money

High Assurance

Overall we can provide a High level of assurance that West Lindsey District Council's arrangements to manage flood risk are operating effectively and its statutory responsibilities are being adequately fulfilled. To ensure a co-ordinated approach to managing floods, the Council continues to pro-actively engage and work with other Risk Management Authorities and Lincolnshire County Council as the Lead Local Flood Authority. This collaborative working enables an appropriate response to be provided to managing and mitigating the flood risks within the District.

Examples of good practice include:

- a clear understanding of the key legislation and the Council's statutory duties and responsibilities relating to flooding.
- confirmation that the Council's Category 1 emergency flooding and 'first responder' duties under the Civil Contingencies Act (2004) are being discharged by Lincolnshire County Council / the LRF via formal agreements.
- Lincolnshire Resilience Forum (LRF) emergency response processes and protocols are robust, well-practised and responsibilities clear.
- a high profile, Lincolnshire multi-agency flood training exercise in which WLDC will have key involvement is scheduled for September 2022. This will significantly aid the testing and evaluation of WLDC's emergency flood plans/ arrangements in place.

We identified no High or Medium priority actions for this review.

Substantial Assurance

Strong financial controls are vital within any public sector organisation. Overall our review of the effectiveness of the key controls in place for the systems reviewed has provided a Substantial assurance opinion. This year we combined our Key Control testing with multiple walk throughs of the Councils recently added Enterprise Resource Planning (ERP) System. This enabled us to ensure that the new system met the expected requirements as well as allow us to look at a wider range of finance systems than we typically would.

This year we examined:

- General ledger
- Creditors
- Debtors
- Procurement card
- Contracts
- Bank Reconciliation
- Assets/PPE

Key Control and ERP

Some areas such as Bank Reconciliation and Contracts had not been fully transferred to the new system and so we walked through the existing process and the new system.

Key controls are working successfully with the system supporting staff with controls such as separation of duty, running automated checks, highlighting errors, and mandatory fields. We also identified that the system had been effectively set up with approval levels, audit trails and designated authorisers in place.

The system is still in development and we identified some improvements such as virements that could be set up and authorised by the same member of staff, a lack of procedure manuals, and performance management dashboards not yet set up. All recommendations have been agreed.

Substantial Assurance

We have concluded that Substantial Assurance can be given for the adequacy of the IT Disaster Recovery arrangements in place. This will help ensure that the Council can quickly resume after an unplanned incident.

Good practice identified includes:

- IT run regular tests to ensure the failover capability for all application servers
- Documented IT Disaster Recovery plans were in place
- Recovery plans clearly define procedures to rebuild and restore Council systems
- Data backup system in place to manage daily (incremental) and weekly (full) data backup routines.
- A number of Cloud Hosted applications are in place. We confirmed that data backup forms part of the Cloud hosted supplier's contractual responsibilities
- An external provider has been contracted to provide additional technical support in the event of an incident including the provision of a mobile data centre. In addition, a Cyber Mutual Aid Agreement has been established with Norfolk County Council. WLDC can seek mutual technical support in the event of a Cyber Security attack leading to the loss of key Council services.
- Disaster Recovery plans are supported by a suite of technical procedures covering issues such as ransomware infection or denial of service attack

In addition to IT Disaster Recovery plans, we confirmed that detailed Business Continuity Plans (BCP) were in place. BCP plans provide ICT with an agreed list of Council systems to be recovered together with their priority and expected timescales for system restore.

We also identified the areas of improvement. These include the need to review server room access rights, the need to review and expand data backup retention periods and the need to undertake annual IT Disaster Recovery tests. All recommendations have been agreed.

Substantial Assurance

We have carried out a follow-up review of the ICT Helpdesk following our previous review of this area in December 2021 which gave a Limited Assurance opinion. We reviewed the findings from the original audit and found the following:

- The Helpdesk priorities and resolution times that service users can expect have now been restated and agreed at the NKDC/WLDC Partnership Board. The minutes for this meeting were approved in April 2022.
- Performance indicators have improved and now provide information as to how the ICT service is delivering against the restated service levels. The revised performance information now also gives transparency over the volume of service requests that remain open at each month end, enabling each Council to assess trends and for the ICT service to consider whether resources are adequate.
- Our original enquiries in February 2021 identified a high volume of 650 ongoing service requests that predated 2021. For this follow up review we obtained a report on all the currently open service requests. This confirmed that the ICT service has continued to address the volume of open requests held in the Helpdesk system, leaving 41 outstanding service requests that predated 2021 to be resolved. Eleven of the 41 outstanding requests have been updated by the ICT service during 2022. Further work identified that some of the requests were in fact projects too large to be part of the Helpdesk system, some were due to be closed, and some were pending further information from the requester.

To support the continuing closure of these remaining 41 cases we raised further recommendations. All recommendations were agreed.

ICT Helpdesk

ICT Cloud Services

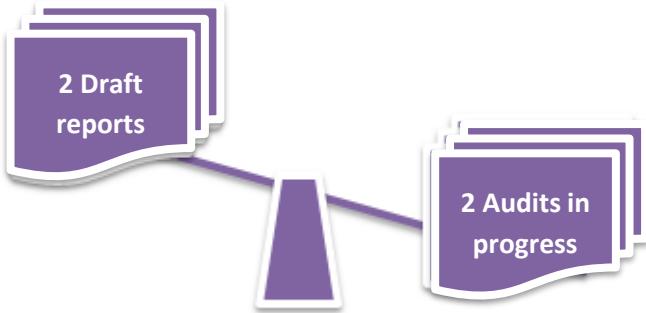
Substantial Assurance

Substantial assurance has been provided for the security controls in place to manage Cloud Hosted Services. This ensures that the Council is protected against the loss of key systems and services such as Planning, Waste Management and Housing Repairs.

Good practice identified includes:

- Information Assurance Risk Assessment questionnaires must be completed at the outset of the supplier evaluation process.
- The ICT Shared Services Manager and his team provide a technical support function for new and existing Cloud applications.
- Lincolnshire Procurement manage the sourcing of prospective suppliers via the G-Cloud government portal along with the contract management process for new Cloud Service Providers.
- All supporting contracts contained standard clauses on subjects such as confidentiality, data protection (GDPR), data backup, security testing and IT Disaster Recovery.
- We found that Due Diligence tests are undertaken jointly by both application owners and the ICT Shared Services Manager.
- All short listed suppliers must complete risk assessments covering key questions on data protection, Disaster Recovery, Cyber Security, and compliance with the National Cyber Security Centre's (NCSC) best practice security guidelines.
- We saw evidence that all Cloud Service providers are contracted to undertake external security testing. As an additional safeguard the ICT Shared Services Manager has proactively expanded the Councils' annual external penetration tests to scan for vulnerabilities across all cloud hosted websites.

We also identified areas that required attention where processes could be more robust. These are the absence of a Cloud Hosting security policy, the failure to enforce two factor authentication on all Cloud Hosted applications and a lack of assurance that all Cloud Service Providers undertake annual Disaster Recovery tests. All recommendations and actions were agreed.



We have 2 audits at draft report stage:

- Contract Management
- Housing Subsidy

Work in Progress

We have the following audits at fieldwork stage:

- Staff Resilience
- Levelling Up Fund part 1 (part 2 due to commence in Q4)

Other Significant Work

The audit tracker report identified that there were 12 actions due for completion by the 31st August 2022. These comprised of:

- 1 High Priority actions
- 11 Medium Priority actions

Following review and discussions with Managers we identified that:

- The High Priority actions had been completed (100%)
- 5 of the 11 Medium Priority actions had been completed (45%)

This information can be found in Appendix 3 along with an update on outstanding actions.

Grant work

Contain Outbreak Management Fund (COMF) was allocated to councils during the Pandemic. The purpose of the grant is to provide support to the councils towards expenditure incurred in relation to the mitigation against and management of local outbreaks of Coronavirus (COVID-19). We confirmed that the use of the Grant complied with the relevant grant terms and conditions.



Combined Assurance

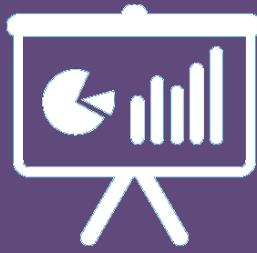
We will be working with Management to produce the Combined Assurance review. This annual process involves discussion and intelligence gathering across the Council, and will provide Members and Management with an overview of the Council's assurance across Critical Activities, Key Projects, Key Partnerships and Key Risks. This work will commence in October 2022 with the report to be presented at the March Committee by Officers. This will also support the Head of Internal Audit's Annual Governance Statement and the 2023/24 Audit Plan.

Staffing changes

Audit Team Leader Emma Bee will be leaving at the end of October for a new position as Head of Internal Audit for the RSPB. The Audit Principal will continue to lead on the management of the audit plan with the Head of Internal Audit Lucy Pledge directly supporting until this vacancy is recruited to. Emma has worked successfully with management and Members for a number of years and we wish her well in her new role.



Benchmarking

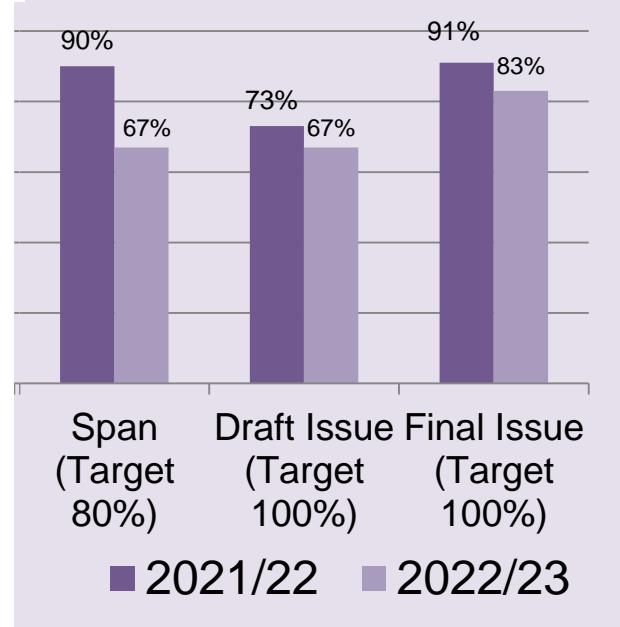


Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

Positive feedback has been received

Plan completed:
32%





Other Matters of Interest

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

CIPFA Position Statement on Audit Committees – published May 2022

CIPFA has updated their position statement for Audit Committees and replaces the 2018 edition and sets out the vital role an Audit Committee plays in a Council's governance arrangements. It sets out key principles around:

- Independence and effective model
- Core functions
- Membership
- Engagement and outputs
- Impact

CIPFA will be issuing an updated 'Audit Committees – Practical Guide for Local Authorities and Police' – due to be published in September 2022.

<https://www.cipfa.org/services/support-for-audit-committees>

CIPFA - Internal Audit Untapped Potential – published May 2022

CIPFA advocates best practice in assurance, governance, management and financial control across the public services. Internal audit has the potential to help organisations achieve their goals, but this potential may not be currently realised. This report, and the research that has been conducted to create it, explores the changing landscape of internal audit in the public services and how vital it is for an organisation in terms of its future success.

CIPFA intention with this report is to open a dialogue across public service organisations, the internal audit profession, audit committees, as well as those considering a career in internal audit. Internal audit is an important part of the solution for effective management of the public services, and CIPFA hope to facilitate change that will see greater independence of internal audit, sustainability of recruitment into the role and an increased understanding of assurance.

This report makes several recommendations. Some are directed at the internal audit teams working within and for the public services. Others are directed at the client organisations, both management and audit committees. There are areas of planned work that CIPFA will be taking forward, some in collaboration with the Chartered Institute of Internal Auditors (CIIA) and the Internal Audit Standards Advisory Board (IASAB).

We suggest that it would be good to explore the content of this report with the Audit Committee as part of its training and development plan – gaining greater insight into the Role and Impact of Internal Audit in the Council.

<https://www.cipfa.org/services/networks/better-governance-forum/internal-audit-documentation/internal-audit-untapped-potential>



Other Matters of Interest

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

Croydon Council Governance Failing

Fairfield Hall is an arts, entertainment and conference centre situated in Croydon. Refurbishment of this building was agreed by Croydon Council and work was undertaken between June 2016 and September 2019. It was delivered late and cost substantially more than the original £30m budget agreed by cabinet. Originally a Value for Money review, this became a Report in the Public Interest by their Internal Auditors Grant Thornton which highlighted failings of financial control and governance of this project.

The report found that the 'governance gaps' at the time 'prevented scrutiny and challenge that may have allowed corrective action to have been taken.' The report found that the statutory officers and chief officers throughout the time of the refurbishment, including the then chief executive, the two Section 151 officers and the then monitoring officer, failed to fulfil their statutory duties. All have since left the council. An action plan will be put in place to address the recommendations arising from this report.

This has led the Council putting in place new measures to address the findings. The Council has overhauled and strengthened its financial, legal, decision-making and other governance processes, and through its Croydon Renewal Plan is creating a new culture of good decision-making, transparency, accountability and value for money.

It also led the council to undertake an external independent review of its companies and company structures. Following that review, the council's intention is to wind down its development company Brick by Brick once it has completed its outstanding building work. The Fairfield Halls refurbishment contracts were taken back under direct Council control.

The full report can be seen here:

[Microsoft Word - London Borough of Croydon Public Interest Report FINAL 260122](#)

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.

Audit Actions

The audit tracker report identified that there were 12 actions due for completion by the 31st August 2022. These comprised of:

- 1 High Priority actions
- 11 Medium Priority actions

Following review and discussions with Managers we identified that:

- The High Priority action had been completed (100%)
- 5 of the 11 Medium Priority actions had been completed (45%)

Please find below details of the outstanding actions along with reasoning as to why they are not fully complete along with a new proposed target date. These will be tracked in future progress reports.

Outstanding Actions

Audit Title	Issued	Assurance	Total Recs	Recs imp	Priority of overdue recs	Recs not due
Local Land Charges 2021/22	Jan 2022	High	1	0	1 Medium priority	0

The recommendation related to the update of process and procedure documents that were out of date following updates during the pandemic. This action was due to be completed by 30th April 2022. As the new software system Horizon took longer to implement fully it has been recommended to change the date to allow a system bedding in period and processes to be established. To be completed by 30th September 2022.

Insurance 2021/22	May 2022	Substantial	8	2	4 Medium priority	2
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The recommendations related to team resilience, staff training and notifications of insurance requirements. The actions were due to be completed by 30th June 2022. The team resilience action requires training from the new Insurance Provider and this should now be completed by 30th October 2022. The training action requires that training to be completed and for a new member of staff to be in place, while the notification action requires that insurance be covered as a standard part of the monthly meetings that Finance Business Partners have with budget holders. Both should now be completed by 31st December 2022.

Covid-19 Business Grants 2021/22	July 2021	Substantial	3	2	1 Medium priority	0
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This action related to the implementation of the new Document Management System across Planning and Regeneration to support version control management. It was due 30th June 2022. It is expected to be implemented into Planning by 31/10/22 but Regeneration will not get this implemented until Phase 2 of the rollout. This is due to delays caused by Phase 1 data migration issues. The estimation for completion of the Regeneration element is December 2023.

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Value For Money	To provide assurance that the Council takes all reasonable steps to achieve Value for Money in the delivery of its services.	20/04/22	20/04/22	19/08/22	High Assurance
Flood Management	To provide assurance that adequate arrangements are in place between the council and the LLFA to both prevent and respond to flooding	11/05/22	11/05/22	23/08/22	High Assurance
ICT Helpdesk	This follow-up review provides assurance that the actions agreed in the previous ICT Helpdesk audit have been satisfactorily implemented and an improved control environment now exists.	01/03/22	01/03/22	10/06/22	Substantial Assurance
ICT Disaster Recovery	To provide assurance that back-ups are robust, working effectively and that disaster recovery arrangements are in place and also periodically tested.	09/02/22	09/02/22	22/08/22	Substantial Assurance
ICT Cloud Services	Review of several cloud hosted solutions to ascertain the level of due diligence undertaken of selected providers and the adequacy of security arrangements in place.	06/05/22	06/05/22	22/08/22	Substantial Assurance
Key Control and ERP	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment. To include coverage on the ERP system.	05/05/22	05/05/22	22/08/22	Substantial Assurance
Staff Resilience	Review looking at measures that WLDC have in place to manage and support staff including supervision, home workplace assessments and support mechanisms.	16/08/22	16/08/22		Fieldwork stage
Key Project: CRM System	Consultancy to advise and support on new system controls.	Q3			

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Wellbeing Lincs Service	Review of delivery and effectiveness of the Council's elements of the wellbeing contract.	TBC			
Contract Management	Assurance that the contract management process within WLDC is operating as planned and in line with policy.	12/07/22	12/07/22		Fieldwork stage
Governance, Risk and Resilience Framework	Health check of WLDC against the 7 governance characteristics within the Centre of Governance and Scrutiny's Governance, Risk and Resilience Framework	Q3			
Risk Management	Review of the risk management monitoring procedures in place at WLDC.	Q3			
Levelling Up Fund	Assurance over the management, decision making and governance of the £10 million Levelling Up Fund received from the Government. This work will cover two phases in 22/23 – the set up process followed by a final review.	14/08/22	14/08/22		Fieldwork stage
ICT Patch Management	The review will focus on the patching of software used by Council, and the firmware used in its infrastructure, is kept up to date and safe against known exploits.	Q3			
ICT Asset Management Hardware	To achieve value for money, and full use from the hardware in use it is important that all ICT hardware assets are tracked and managed appropriately. This is increasingly important where staff and equipment are no longer stationery and working from home has become a necessity in response to Covid-19.	Q4			

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Key Control Testing	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment. Terms of Reference which include scope and focus on key risks will be determined with the appropriate senior manager.	Q4			
Follow Ups	To provide management with assurance that actions from previous key audits have been implemented and this has led to improved outcomes.	Q4			