



Internal Audit Annual Report & Opinion 2023/24

The Head of Internal Audit is responsible for delivering an annual opinion and report to inform the Annual Governance Statement, concluding on the adequacy and effectiveness of the Council's governance, risk and control framework.

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1. Role of Internal Audit

The Council is required by the Accounts and Audit (England) Regulations 2015, to:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.’

In fulfilling this requirement, the Council should have regard to the Public Sector Internal Audit Standards (PSIAS), as the internal audit standards set for local government. In addition, the Statement on the Role of the Head of Internal Audit in Public Service Organisations, issued by CIPFA, sets out best practice and should be used to assess arrangements to improve audit quality and governance arrangements.

The role of internal audit is best summarised through its definition within the Standards, as an:

Independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes’.

The District Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a role in advising the District Council that these arrangements are in place and operating effectively.

The District Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives.



Figure 1 International Professional Practice Framework (2017)

2. Internal Audit Approach

To enable effective outcomes, internal audit may deliver a combination of assurance and consulting activities. Assurance work involved assessing how well the systems and processes were designed and working, with consulting activities available to help to improve those systems and processes where necessary. A full range of internal audit services is provided in forming the annual opinion.

As the Head of Internal Audit, I review the approach to each audit, considering the following key points:

- Level of assurance required.
- Significance of the objectives under review to the organisation's success.
- Risks inherent in the achievement of objectives.
- Level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.

For 2023/2024 the annual audit plan was developed from the facilitated combined assurance work undertaken in 2022/2023 and subsequent discussion with the corporate leadership team. The annual plan was agreed locally in 2022/23 and presented to the Audit Committee in April 2023 where it was agreed. The plan remained fixed during the year with the removal of one audit at management's request. The removal of one assignment did not impact upon my ability to provide an annual opinion for the Council. Figure 2 shows the main aspects that fed into the plan and were considered as part of the wider formation of that opinion.

As Head of Audit, I have placed reliance on appropriate external assurance and third party assurance work which may contribute to the development of the audit plan and, by relationship between the two aspects, into the annual opinion. The International Professional Practice Framework (IPPF) provides guidance for the reliance upon such material, and this was followed in application.



Figure 2

The format of the Annual Report has been amended for 2023/2024. This is an intended action to provide greater transparency for the methodology, the evidence base used when determining the opinion and the rationale for the opinion rating provided. The revised narrative approach provides the opportunity to include specific areas the Head of Internal Audit feels add value over and above the framework.

3. Internal Audit Coverage

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council's activities and to support the preparation of the Annual Governance Statement. Work was planned and performed to obtain sufficient evidence to provide reasonable assurance that the internal control system was operating effectively.

The 2023-2024 internal audit plan was reported to the Governance and Audit Committee throughout 2023/24 to complement our approach to flexible planning. It was informed by internal audit's own assessment of risk and materiality in addition to consultation with the corporate leadership to ensure it aligned to key risks facing the organisation.

At management's request, the plan was fixed throughout the year to support the effective focus and ensure the programme provides assurance, as agreed. All internal audit reviews culminated in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review.

Where consultative work has been delivered it is considered when forming my opinion and any action taken as a consequence is revisited when the assurance programme is considered in its entirety.

4. Internal Audit Opinion

As Head of Internal Audit, I am responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform their annual governance statement. The annual opinion concludes on an independent audit opinion broken into three key areas, governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be provided, I have used the following to aid my opinion:

- ✓ Written reports on all internal audit work completed during the year (assurance and consultancy).
- ✓ Results of any follow up work undertaken in respects of previous years' internal audit work.
- ✓ The results of work other review bodies delivered, where appropriate.
- ✓ The extent of the resources available to deliver the internal audit work.
- ✓ The quality and performance of the internal audit service and the extent of compliance with the Standards, and
- ✓ The proportion of the Council's audit need that has been covered within the period.

The assurance opinions are defined as follows:

Substantial Assurance
<p>There is a sound framework of control operating effectively to mitigate key risks, which is contributing to the achievement of business objectives.</p> <ul style="list-style-type: none"> • No individual audit engagement classed as limited or no assurance. • Occasional medium rated risks identified in individual audit engagements although mainly low weaknesses. • Internal audit has confidence in management's attitude to resolving identified issues.
Adequate Assurance
<p>The control framework is adequate and controls to mitigate key risks which are operating effectively, although some controls need to improve to ensure business objectives are met.</p> <ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual audit assignments. • Isolated high rated risks identified for isolated issues. • No critical rated risks identified through the audit programme. • Internal audit is broadly satisfied with management's approach to resolving identified issues.
Limited Assurance
<p>The control framework is not operating effectively to mitigate key risks. A number of key controls are absent and/or are not being applied to meet business objectives.</p> <ul style="list-style-type: none"> • A significant number of medium and/or high rated risks identified in individual audit assignments. • Isolated critical and/or high rated risks identified that are not systemic. • Internal audit has concerns about management's approach to resolving identified issues.
Low Assurance
<p>A control framework is not in place to mitigate key risks. The Council is exposed to abuse, significant error or loss and/or misappropriation. Objectives are unlikely to be met.</p> <ul style="list-style-type: none"> • Serious systemic control weaknesses identified through aggregation of individual audit engagements. • Significant number of high and/or critical rated risks identified for isolated issues. • Internal audit has serious concerns about management's approach to resolving identified issues.
No Assurance
<p>Insufficient internal audit work has taken place during the period to substantiate an independent opinion. The rationale for this will be fully explained in the report.</p>

Please Note

Results and observations of internal audit advisory/consultancy work forms an important part of the opinion. Where they have material weighting this will be fully explained in the report. Internal audit may amend an opinion based on the work of internal audit where it is aware of material findings by another trusted assurance party. This will be fully explained in the report. Circumstances may arise where internal audit is aware of specific issues with the control environment that negate the use of the framework. The rationale for such deviation will be fully explained in the report.

Annual Audit Opinion 2023/2024

I am satisfied that sufficient assurance work has been carried out to allow me to form a conclusion on the adequacy and effectiveness of the internal control environment.

In my opinion the frameworks of governance, risk management and management controls are **substantial** and audit testing has demonstrated controls to be working in practice. Whilst the audit work awards one limited assurance rating for procurement, the areas of non-compliance were periphery in nature and acknowledged by the Council. In my opinion, when viewed in its entirety this one assignment award does not impact upon the quality of governance and internal control in operation as it is very much in isolation.

Where weaknesses have been identified through internal audit review, the audit team have worked with management to agree appropriate corrective actions within an appropriate timescale for improvement. On the whole, the application of management action has been exemplar throughout the year.

5. Key Observations on Governance, Risk & Control

Assurance Opinion From 2023-24 Reviews

Significant findings from our reviews have been reported to the Governance & Audit Committee throughout the year and a summary of the assurance opinions awarded is outlined in figure 3.

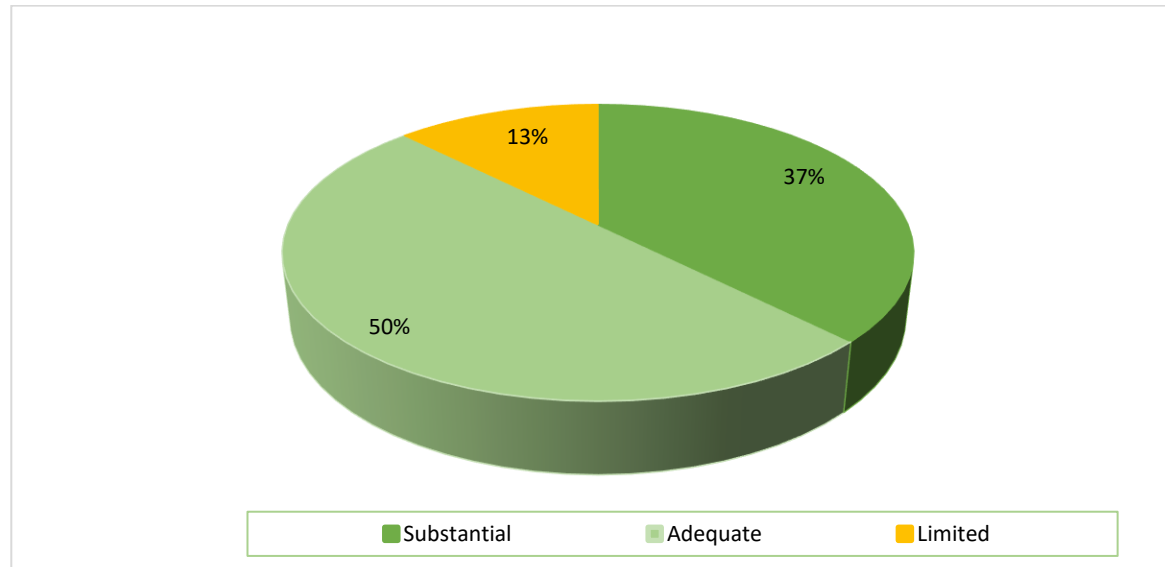


Figure 3 – Assurance Summary

Governance

Every assurance assignment contains a review of governance elements. Governance arrangements are considered during the planning and scoping of each review and in most cases, the scope of our work includes an overview of:

- the governance structure in place, including respective roles, responsibilities, and reporting arrangements,
- relevant policies and procedures to ensure that they are in line with requirements, regularly reviewed, approved, and appropriately publicised and accessible to officers and staff.

Based on the work completed during the year in my opinion the governance frameworks in place across the Council are robust, performing well and fit for purpose. There is appropriate reporting to the Governance and Audit Committee of matters relating to governance, and the committee receives progress reports against AGS action plans and receives updates on management actions arising from internal audit work. The constitution is reviewed annually and reported appropriately to the relevant committee which aligns with agreed Terms of Reference. The Governance and Audit Committee has two non-elected members who provide appropriate challenge and questioning.

Risk Management

The Council has a risk management process in place, which reported six monthly to the Governance and Audit Committee. Risks were discussed by management on a monthly basis. An appropriate matrix is in place and utilised by officers in their reporting processes as well as the risk management actions undertaken.

In accordance with the constitution, the Governance and Audit Committee played a key role in monitoring the effective development of risk management. This has been supported through the Committee's overview and application of the risk management strategy and of the strategic risk register which have featured as a regular agenda item throughout the year.

In my opinion the risk framework in place across the Council is fit for purpose and subject to regular and appropriate review and supports the delivery of the Council's objectives.

Control

Overall, internal audit work found there to be a sound control environment in place across the majority of review areas included in the 2023/24 plan that worked effectively to support the delivery of corporate objectives. The substantial assurance awards in high risk areas such as cyber and key controls demonstrated the strength of commitment to deliver effective internal control and the appropriateness of risk based resource allocation. Across council services, audit work found officers and staff to be aware of the importance of effective control frameworks, and open to our suggestion for improvements or enhancements as needed. Management actions agreed from each assignment are monitored through to completion to ensure that the identified risks and issues are addressed. There was one award with a limited assurance rating, which does not detract from the control environment as a whole. Whilst there was one area that was not compliant with the legislation framework in all areas, it is the Head of Internal Audit's view that the elements of noncompliance were not fundamental in nature and did not inhibit the delivery of objectives or detract from the control environment as a whole.

6. Additional Observations

Management Actions

Where internal audit work identified risks considered as falling outside the parameters acceptable to the Council, appropriate corrective actions were agreed and a timescale for improvement implemented with the responsible managers. Managers were proactive in addressing agreed actions and displayed a positive attitude towards feedback and improvement discussions. Progress was reported to the Governance and Audit Committee across the year through the internal audit progress reports, with high focus on areas receiving negative assurance ratings.

Anti-fraud and Anti-corruption

The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image.

The Council holds a suite of strategies and policies to support the effective management of the prevention, detection and investigation of possible fraud and corruption. During the year an external assessment of fraud risks was undertaken which considered practice, training and officer awareness, in addition to policy and procedural reviews. The risk management process includes fraud risks.

Reactive Fraud / Irregularity Activity – During the year the Council issued two council tax reduction sanctions with a total value of £140. 16 single fraud investigation referrals were made to the Department for Work and Pensions (DWP). Of those 16 referrals one has been confirmed by the DWP as being investigated. The remaining 15 are yet to be assessed by the DWP. Of the 16 referrals, 4 relate to housing benefit, 10 universal credit, 1 council tax support and 1 pension credit.

National Fraud Initiative (NFI) - The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud.

Data received in March 2023 have been categorised into high, medium and low risk for both housing benefit and council tax. At the time of drafting, housing benefit data matches had been categorised as 10 high, 0 medium and 17 low risk. The council tax data matches were categorised as 18 high, 136 medium, 15 low and 40 no risk with work ongoing. The data matches from 22/23 data sets have been closed with a total overpayment of £1,204.96. One remains as open whilst work continues.

Between January and April 2024 420 single person discounts were removed as a result of NFI data matching which generated an additional £174,439 in revenue and £25,760 in penalties.

7. Quality Assurance, Conformance & Performance

The Standards require the Head of the Internal Audit to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the internal audit service to be assessed against the Standards (2017) and the Local Government Application Note (2019) (LGAN) for conformance.

The QAIP must include provision for both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An External Quality Assessment of Lincolnshire County Council's Internal Audit Service was undertaken by CIPFA in May 2022. In considering all sources of evidence the external assessment team concluded: *'It is our opinion that the Assurance Lincolnshire Partnership's (now known as LCC Internal Audit Service,) self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.'*

Disclosure of Non-Conformance

There are no disclosures of non-Conformance to report. In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm that Lincolnshire County Council conforms to the definition of Internal Auditing; the Code of Ethics and the Standards.

Quality Control

The Internal Audit Service continues to provide a service that is responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2023-2024 through the following internal processes:

- Implementation and delivery of specific training needs for all internal auditors.
- Reviewed and updated internal systems and processes covering all aspects of delivery and quality assurance.
- Development of an overarching quality assurance framework to inform future training and support needs.
- Separation of the counter fraud and internal audit functions to enable appropriate skill alignment and collaborative working opportunities to respond to risks, demands and opportunities.

Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Lincolnshire County Council – Performance Measures	
Audit Management	Performance Measure
Annual Plan presented to Audit Committee by 31 st March.	Yes
Annual Internal Audit Report presented to Audit Committee by 30 th June.	Yes
Completion of Annual Audit Plan	100%
Individual Assurance Assignments	
Timescales	
<ul style="list-style-type: none"> • Draft report issued within 10 working days of completing audit. • Final report issued within 10 working days of closure meeting/receipt of management responses. • Individual audit assignment in timescales delivered as agreed in the latest internal audit plan. 	<p>100%</p> <p>40%*</p> <p>100%</p>
Percentage of recommendations agreed.	100%
Client feedback on Audit (average)	Excellent

* Delays in being able to issue the final reports within ten days of the closure meeting were experienced in five audit processes. These are summarised below:

ICT Cyber security – Delays in agreeing the report on the client side as needed approval by two clients and were disappointed with the adequate opinion rather than substantial.

Combined assurance – Delays in obtaining all of the management summary information from client staff.

Procurement – Delays due to diary availability for three client staff with internal audit.

Performance – Report issued in February 2024. Delays in the provision of agreed actions and management response for client staff.

Key Controls – Delays due to annual leave of client staff.

Appendix 1:

Summary of assurance reviews throughout 2023/2024

Lincolnshire County Council
Substantial Assurance: A reliable system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<ul style="list-style-type: none">• Levelling Up• Key Financial Controls• Cyber – Incident Management
Adequate Assurance: There is a generally reliable system of governance, risk management and control in place. Some issues of non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<ul style="list-style-type: none">• Equality Impact Assessment• Cyber Security• Key Project Review: Saxilby Footbridge• Performance Management
Limited Assurance: Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<ul style="list-style-type: none">• Procurement
No Assurance: Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks in the achievement of the objectives for the area audited.
<ul style="list-style-type: none">• No assignments awarded no assurance.