



**Annex A**

## **City of Lincoln Council**

**Internal Audit Annual Report – 2017/18**



This report has been prepared solely for the use of Members and Management of City of Lincoln Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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 on the work undertaken as part of the agreed internal audit plan.

## Contents

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Purpose of Annual Report	03
Our opinion on governance, risk and the control environment	03
How we came to our opinion	04
Scope of work	06
Delivery of internal audit plan 2016/17	08
Restrictions on scope	08
Effectiveness of Internal Audit	08
Quality Assurance	09

Appendix 1- Internal Audit Assurances Given 2017/18

Appendix 2 - Quality Assurance Framework

Appendix 3 – Glossary of terms

Appendix 4 - Continuous Improvement Plan

### **Distribution List**

Chief Executive & Town Clerk; Directors, Chief Finance Officer, City Solicitor, Leader of the Council, Chair, Audit Committee.

# Management Summary

## Purpose of Annual Report


The Annual Internal Audit Report of City of Lincoln Council aims to present a summary of the audit work undertaken over the past year. In particular:-

- Include an opinion on the overall adequacy of and effectiveness of the governance framework and internal control system and the extent to which the Council relies on it;
- Inform how the plan was discharged and the overall outcomes of the work undertaken;
- Draw attention to any issues particularly relevant to the Annual Governance Statement.

Figure 1

<b>Key</b>	
<b>Red</b>	<b>Inadequate Performance</b> – Critical action required by management throughout the Council.
<b>Amber</b>	<b>Performing Adequately</b> – Some improvement required to manage a high risk in a specific business area and medium risks across the Council.
<b>Green</b>	<b>Performing Well</b> – No concerns that significantly affect the governance framework and successful delivery of the Council priorities


### Direction of Travel

No change -stable	Improving	Reducing
		

## Opinion on the Governance Framework and Internal Control Environment

For the twelve months ended 31 March 2018, based on the work we have undertaken and information from other sources of governance, my opinion on the adequacy and effectiveness of City of Lincoln Council's arrangements for governance, risk management and control is shown in Figure 1 below;

There were two limited assurance audit reports (see Appendix 1)

<b>Governance</b>	<b>Green</b>
<b>Risk</b>	<b>Green</b>
<b>Internal Control</b>	<b>Green</b>
<b>Financial Control</b>	<b>Green</b>
<b>Direction of travel – static</b>	

## How we came to our opinion

**Governance** – *“If management is about running the business  
– Governance is about seeing that it is run properly”*

Local Government has been and will continue to undergo significant change. The way it operates and delivers services – either directly, with or through other organisations will provide challenges for managing risk, ensuring transparency and demonstrating accountability. The importance to aim for the standards of the best and ensuring governance arrangements should not only be sound but also seen to be sound has never been greater.

Good governance underpins everything the Council does and how it delivers services often comes under close scrutiny. It is therefore vital that resources focus on agreed policy and priorities; that there is sound and inclusive decision making with clear accountability for the use of those resources. This ensures that the Council achieves the desired outcomes for the people of the City of Lincoln Council.

The 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.

New CIPFA guidance on Delivering Good Governance in Local Government was produced in 2016. An assessment against the requirements was rated as Substantial and no significant areas for improvement were identified.

A high-level risk and governance audit (2017) provided High assurance. All recommendations have been implemented

We had no internal audits that were low or limited assurance in areas of Corporate Governance.

The recent positive LGA peer review (which partly covered governance) was extremely positive.

The External Audit 'Report to those charged with governance (ISA260) 2016/17 reported that the Council's Annual Governance Statement complies with guidance issued by CIPFA / SOLACE.

There were some Governance areas within our Combined Assurance assessment which were Amber assurance; however these areas all have mitigation which is in progress, such as GDPR implementation, procurement arrangements, TOFS savings etc. Partnership governance is an area for focus and, linked to GDPR, a comprehensive partnership register is being developed with service managers. Partnership guidance is in place. Counter Fraud received an Amber rating mainly due to resources for CTS and Tenancy Fraud although plans are in place to cover these in 19/20 and 18/19. Fraud awareness training has commenced and continues to be rolled out during 18/19.

In terms of project/programme management officers are updating the LPMM (project management model). Main/large capital projects are reported through Vision Boards and through DMT's but ColC will establish a new Capital Programme Group (chaired by Chief Finance Officer and including only finance staff) to monitor the overall capital programme. Project management received an amber assurance due to the transition period. There has also been some strengthening of Board governance on one major project.

Taking the above information into account we have assessed the governance framework as **green** – performing well.

## Internal Control

We took account of the outcome of our internal audit work during the year. Our work identified only two areas where a 'Low' or 'Limited' assurance opinion was given.

At the end of march there were a small number of high priority audit recommendations which are in progress but remain to be fully implemented including updating Council inventories, completing a key partnership ICT SLA, DP E-learning and the choice based lettings annual reviews.

Our Combined Assurance report for 2017/18 showed that the Council continues to have high levels of assurance (89% Green and 10% Amber and 1% Red).

We took account of external audit's 2016/17 annual opinion on statement of accounts, VFM opinion and grants report

*See also comments in the risk and governance sections which also apply to internal control.* The incidence of fraud across the Council in 2017/18 was low, and there were no associated internal control issues. . Taking all of the above information into account we have assessed the internal control environment as **green** – performing well.

## Risk Management

There is an established risk management framework in place for the Council to manage the key risks facing it at strategic and operational levels, with regular reporting to management and members.

A high-level risk management audit (2017) provided substantial assurance. Risk management was given a GREEN assurance as part of the Combined Assurance work

“Risk” overall is well managed both formally and informally; Strategic and Directorate risks are being well managed with regular reviews.

The Council receives professional support from Assurance Lincolnshire and comprehensive guidance has been developed and further training across officers and members is planned early in 2018/19.

One Directorate needs to improve the frequency of review of the DRR and this will be brought up to date.

Our internal audits have not identified any significant risks and recommendations have been implemented.

Further work on risk management will take place in early 2018/19

There is an annual Risk Management report to Audit Committee – the 2017/18 report did not identify any issues.

On this basis we have assessed risk management as **green** – performing well.



## Financial Control

Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts.

- During the year we reviewed:
  - Toilet Income – Substantial
  - Elections (x2) – some adjustments
  - Housing Benefits KC – High
  - NNDR KC – High
  - Creditors KC – Substantial
  - Debtors KC – High
  - Car Park income – Substantial
  - Procurement – Substantial
  - Council Tax – will be at least Substantial (in progress)
  - Asset acquisition - Substantial

The Council has good financial management processes in place that work well. Our work identified no areas where a 'Limited' or 'Low' assurance opinion was required.

We took account of external audit's 2016/17 annual opinion on statement of accounts, VFM opinion and grants report

We note the current positive position on the savings / transformation programme (TOFS), future savings required and the current 2018/19 MTFS. Savings over achieved 17/18 and there is a manageable shortfall 18/19. Reserves remain at a prudent level.

Combined Assurance work identified some Amber assurance areas however these areas all have relevant mitigation which is in progress.

Taking the above information into account we have assessed financial control as **green** – performing well.

## Roles and Responsibilities

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.

Where Internal Audit work has identified improvements, we have worked with management to agree appropriate corrective actions and a timescale for improvement. It is the responsibility of management to implement the agreed actions.

The Council is responsible for developing and publishing an Annual Governance Statement – reporting how they have monitored the effectiveness of their governance arrangements during the year – providing information on any significant governance issues.

The Annual Internal Audit Report should inform the Annual Governance Statement - we recommend that the 'low or limited' assurance areas identified in Appendix 1 are considered in the development of the Council's Annual Governance Statement. Statement – together with the information contained in the Council's Combined Assurance Status Report reported earlier this year linked to Amber or Red assurance areas. There was one Red assurance which included: Housing Solutions - Property Shop / Allocations / Homelessness.

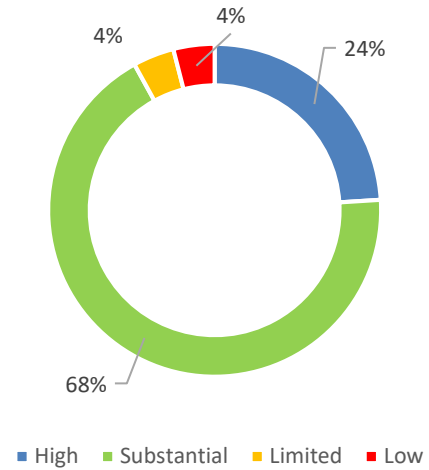
## Scope of Work

19. The charts in **Figure 3** shows the assurance opinions given in 2017/18 compared to those in 2016/17. 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.
20. We can see from the charts that the overall assurance levels have remained broadly similar during 2017/18, although there are two audits with limited / low assurance.

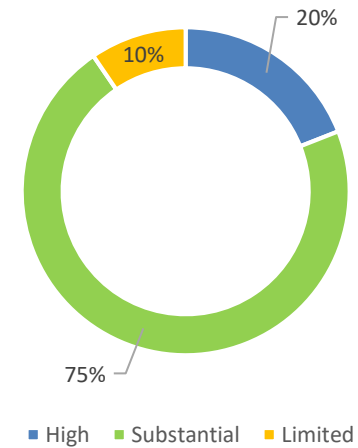
### Comparison of Assurances

	2017/18		2016/17	
High	3	(20%)	6	(24%)
Substantial	15	(75%)	17	(68%)
Limited	2	(10%)	1	(4%)
Low	0	(0%)	1	(4%)

Assurance levels 2016/17



Assurance levels 2017/18

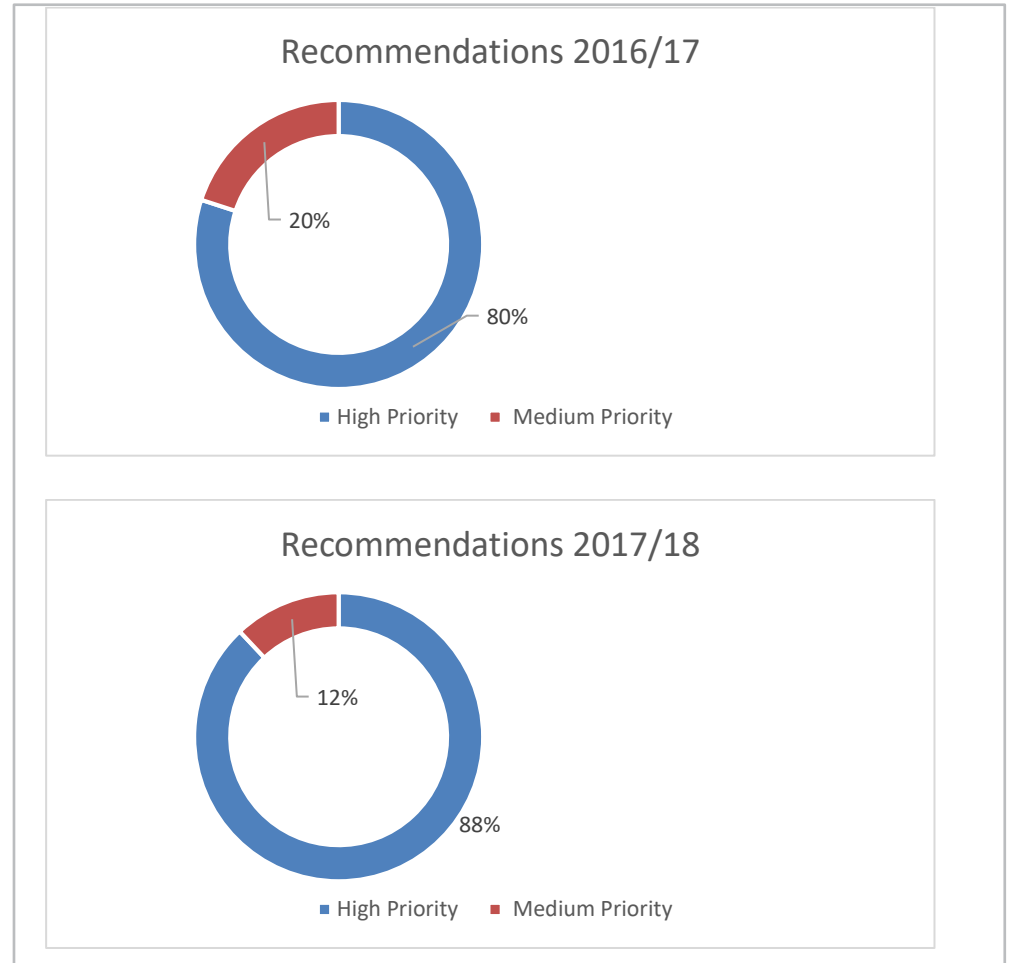


21. The charts in **Figure 4** show the comparison of internal audit recommendations made in 2017/18 compared to 2016/17. Details of systems reviewed can be found in Appendix 1
22. We track the implementation of agreed management actions. Over the past year management have implemented 65% of the recommendations due by the 31<sup>st</sup> March 2018, a decrease from 2016/17. Details of outstanding recommendations can be found in Appendix 1.

**Number of recommendations made**

	2017/18	2016/17
High	12	20
Medium	90	81
<b>Total</b>	<b>102</b>	<b>101</b>

**Figure 4 – Recommendations Made**





## Delivery of internal audit plan 2017/18

23. The Audit Committee approved the 2017/18 audit plan. We delivered 97% of the revised plan by the end of the financial year.
24. Internal Audit's performance is measured against a range of indicators. The table below shows our performance on key indicators at the end of the year. We are pleased to report successful achievement against most of our targets and will be closely monitoring the others to improve performance.

Performance Indicator	Target	Actual @ 31/03/2018
Percentage of plan completed.	100%	97%
Percentage of key financial systems	100%	86% (1 in progress)
Percentage of recommendations agreed.	100%	94% (6 IT DR not agreed)
Percentage of recommendations due implemented.	100% or escalated	65%
<b>Timescales:</b>		
Draft report issued within 10 working days of completing audit	100%	100% - 19 out of 19
Final report issued within 5 working days of closure meeting / receipt of management responses.	100%	100% - 18 out of 18
Period taken to complete audit within 2 months from fieldwork commencing to the issue of the draft report.	80%	90% - 17 out of 19
Client Feedback on Audit (average)	Good to excellent	Good to excellent

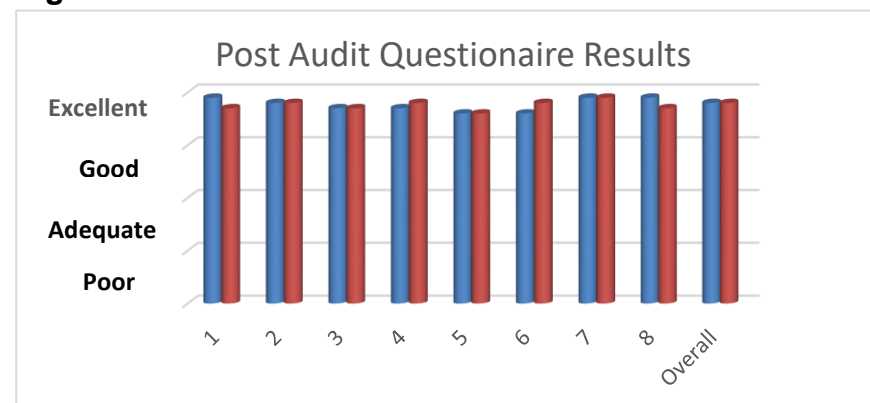
## Restrictions on Scope / Disagreements

25. In carrying out our work we identified no unexpected restrictions to the scope of our work and we can confirm that Internal Audit's independence has not been impaired during the year.
26. Audit work is scheduled to fit around the work demands of the client and it is very rare that we have difficulties in gaining access to staff, which results in some delay or inability to deliver planned work within the expected timescales.

## Effectiveness of Internal Audit

27. We regularly canvass opinions on audit planning, reporting and communication from management responsible for activities under review. They score the effectiveness of our service as excellent, good, adequate or poor.
28. The table in **Figure 5** outlines the responses by management on our service. For 2017/18 there was a 83% questionnaire return rate, the overall average rating for the service was good to excellent.

**Figure 5 – Client Feedback**



**Key: Blue: 2016/17, Red: 2017/18.**

### Audit Planning

1. Consultation on audit coverage
2. Fulfilment of scope and objectives

### Audit Report

3. Quality of report
4. Accuracy of findings
5. Value of Report

### Communication

6. Feedback during the audit
7. Helpfulness of auditor (s)
8. Prompt delivery of report

## Quality Assurance

29. We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards. We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.
30. Our commitment to quality begins with ensuring that we recruit, develop and assign appropriately skilled and experienced people to undertake your audits.
31. 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.
32. Our Quality Assurance Framework (**Appendix 2**) includes all aspects of the Internal Audit Activity – including governance, professional practice and communication. We are able to evidence the quality of our audits through performance and delivery of audits, feedback from our clients and an annual self-assessment and the annual review of the effectiveness of the Internal Audit Function by the Council.
33. There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings. A training programme has been developed to ensure that staff are kept up to date with the latest technical / professional information and to ensure that they are equipped with the appropriate skills to perform their role.
34. Assurance Lincolnshire conforms to the UK Public Sector Internal Audit Standards including the Code of Ethics and we can confirm that we are complying with the Core Principles. As part of our quality assurance framework we maintain a continuous improvement plan (QAIP)
35. We have reviewed our internal quality assurance assessments and can confirm that our processes for planning, fieldwork and communicating results adhere to audit standards. Our review work did not identify any significant areas of non-compliance.
36. An external quality assessment was completed in October 2016, which found general compliance with PSIAS, and was reported separately to Audit Committee.
37. 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.
38. Internal audit is 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. We confirm that the internal audit activity is organisationally independent and resources available are adequate.





## Appendix 1 Internal Audit Assurances Given 2017/18

Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	Outstanding			Notes	Direction of Travel
					High	Medium	Not Yet Due		
Debtors Key Controls	February 2018	High	0	-					↑
Asset Rationalisation	February 2018	Substantial	7M	0		7	7		Not previously audited
Car Park Income	March 2018	Substantial	7M	1		6	6		↔
Vision 2020	March 2018	Substantial	4M	0		4	4		Not previously audited
Bus Station	April 2018	N/A – Advice	N/A	-					Not previously audited
Procurement	April 2017	Substantial	1H & 6M	2	1	4	5		↔
HMO Licensing	May 2018	Limited	5H 8M	0	5	8	13		Not previously audited
Council Tax	May 2018	Substantial-Draft							↓
Planned Maintenance	May 2018	Substantial-Draft							↔
Total Outstanding				42	8	52	37		

During 2017/18 some changes were made to the Internal Audit Plan; these were due mainly to timescale / operational / delivery issues in the audits affected. I do not consider these changes to have had an adverse effect on the delivery of my overall opinion.

Audits postponed to 2018/19 were;

- Work Based Learning – Management working through changes
- Transport Hub – Final accounts due early 18/19
- Housing Company – Not progressed 17/18
- Growth Strategy – Strategies in development
- Risk Management – to review May 2018
- Housing Investment – new build projects

Audits added during the year were;

- Asset Rationalisation (replaced Partnership Management)

**Appendix 1 Internal Audit Assurances Given 2017/18**

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**Total High / Medium 2017/18 Recs Made = 102**

**Total not yet due = 37**

<b>Net</b>	<b>= 65</b>	
<b>Implemented in full</b>	<b>= 42</b>	
<b>% Implemented</b>	<b>= 65%</b>	<b>(H &amp; M)</b>



## Appendix 2 - Quality Assurance Framework



Quality outcomes / process designed to deliver a consistently high quality audit service to our clients - fit for purpose / meet client expectations / conform to PSIAS

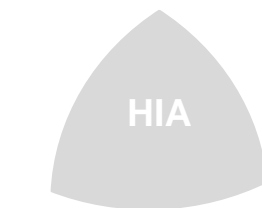


Quality improvement plan - HIA reporting to Audit Committee on the outcome of Quality Assurance – with improvement action plan and any significant non-conformance included in the Annual Report / Annual Governance Statement



### Ongoing monitoring – quality built into the audit process

Quality checks and oversight are undertaken throughout the audit engagement ensuring that processes and practice are consistently applied and working well.



### Annual self- assessment

- Head of Internal Audit - develop & maintain Quality Assurance Improvement Programme (QAIP) & improvement action plan
- Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards
- Arrange an External Assessment – co-ordinated with Audit Committee (completed 2016)



### Periodic quality assurance assessments

- Obtain periodic assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Provide HIA with quarterly highlight reports on outcome of reviews



- Conduct all audit engagements in accordance with audit practice standards / PSIAS
- Behave at all times in accordance with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Commitment to delivering quality services



- Obtain on-going assurance that that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Undertake engagement supervision and review



## Appendix 3 - Glossary of Terms

<p><b>High</b></p>	<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>
<p><b>Substantial</b></p>	<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>
<p><b>Limited</b></p>	<p>Our critical review or assessment on the activity gives us a</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>
<p><b>Low</b></p>	<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>

<p><b>Significance</b></p>
<p>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.</p>
<p><b>Head of Internal Audit Annual Opinion</b></p>
<p>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.</p>
<p><b>Governance</b></p>
<p>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.</p>
<p><b>Risk</b></p>
<p>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.</p>
<p><b>Control</b></p>
<p>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</p>

## Appendix 4 - Continuous Improvement Plan

See attached.