



Appendix A

## City of Lincoln Council

### Internal Audit Annual Report – 2019/20



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.

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### **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.

### Key

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

Our annual assurance ratings link to our four standard audit assurance ratings; High and Substantial (Green), Limited (Amber) and Low (Red).

### Direction of Travel



## Opinion on the Governance Framework and Internal Control Environment

For the twelve months ended 31 March 2020, 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 below; there was one limited assurance audit report (see Appendix 1).

This Annual Report is based on work undertaken and opinions obtained prior to the outbreak of the Covid-19 virus. In line with the corporate strategy responding to the pandemic, audit resources have been redeployed to deliver key services, supporting business and protecting the most vulnerable. The impacts of the virus on the Council’s governance framework and internal controls will be assessed and a report to audit committee will follow in due course. The virus has made it difficult to close down some audits but in these cases sufficient work had been done to be able to give an audit opinion.

### Assurance across Governance, Risk and Control

Governance	Green - Substantial*
Risk	Green - Substantial*
Internal Control	Green - substantial*
Financial Control	Green - Substantial*

Direction of travel; No change – stable

The assurance rating means that we have no concerns that significantly affect the governance framework and successful delivery of the Council priorities. Across the four areas of governance there are some ongoing or planned improvements. These are detailed in the sections below.

## 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 (AGS).

CIPFA guidance on Delivering Good Governance in Local Government was produced in 2016. An assessment against the requirements was completed and formed the basis of the Council's Code. The Code and assessment is due for review in 2020

High-level governance audit work in 2020 and 2019 did not identify any significant issues.

There are some governance-linked actions to complete and these are within existing action plans and progress should be made during 20-21. Project management received limited assurance in 2020, however other related audit work in the past had been awarded substantial assurance. Management have commissioned a post implementation review of the project management framework, guidance and monitoring arrangements and this is due to report later in 2020.

Officers and members have maintained a focus on the AGS significant issue (IT Disaster Recovery) during the year; as at the 31<sup>st</sup> March 2020 further actions are still required which will be completed in 20/21.

There were some Governance areas within our Combined Assurance assessment, which were rated Amber assurance; however these all have mitigation in place.

Existing action plans include developing areas through One Council – charter and organisational development; ICT (for example finalising the IT security policy), partnership governance, the information governance action plan and other areas.

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

### Internal Control

We took account of the outcome of our internal audit work during the year. Our work identified only one area where a '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 and re-issuing guidance for IT applications, IT Security training, reviewing IT Security policies and HMO system improvements.

Our Combined Assurance report for 2019/20 showed that the Council has good levels of assurance (63% Green, 34% Amber and 3% Red). This is a slight increase in amber and red assurance levels however mitigation actions are in place.

We took account of external audit's 2018/19 annual opinion on statement of accounts, VFM opinion – both unqualified.

We took account of our counter fraud work during the year. There were no significant internal control issues.

*See also comments in the risk and governance sections, which also apply to internal control.*

Taking all of the above information into account we have assessed the internal control environment as **Green – substantial** 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.

Risk audits in 2020 and 2019 provided substantial assurance. Risk management was given a GREEN assurance as part of the Combined Assurance work.

“Risk” overall is generally well managed both formally and informally; Strategic and Directorate risks are being well managed with regular reviews. One Directorate risk register needed updating at the year end.

The Council receives professional risk management support from Assurance Lincolnshire - comprehensive guidance has been given to officers and members during 2019/20.

Our internal audits have not identified any significant issues in this area; there have been a small number of risk management related recommendations

There is an annual Risk Management report to Audit Committee – the 2018/19 report did not identify any issues. The 2019/20 report was deferred due to COVID

On this basis we have assessed risk management as **Green –substantial** 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:

- Boutham Park – Final Account
- Procurement
- Treasury Management
- Payroll
- Rental income
- Licensing
- De Wint Court project management

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 2018/19 annual opinion on statement of accounts, VFM opinion

We note the current financial position and MTFS 2020/25 which highlights medium term complexity and uncertainty about future funding. The overriding financial strategy has been, and is, to drive down the net cost base to ensure it maintains a sound and sustainable financial position. The key mechanism for carrying out this strategy is through the Towards Financial Sustainability (TFS). As part of developing the MTFS 2020-25, due to changes in key assumptions, it has been necessary to increase and re-profile the existing savings target with new targets from 2020/21 onwards.

Reserves remain at a prudent level. Over the MTFS general reserves are maintained in line with a prudent minimum and show an estimated balance of £1.645m by the end of 2024/25.

Work on combined Assurance noted TFS as an Amber area and the development of a programme to achieve increased targets is currently underway. TFS is also the subject of an internal audit for 19-20 which will be completed in 20-21.

Taking the above information into account we have assessed financial control as **Green –substantial** 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 together with the information contained in the Council's Combined Assurance Status Report, specifically the Red and Amber assurances on service areas and risks.

Red Combined Assurance areas:

- Bereavement services (*linked to risks around the project for crematorium development*)
- Private Sector Housing - DFG
- Housing standards and HMO's

Limited Assurance Audits:

- Project management

19/20 Audit work was pre-covid and this has undoubtedly impacted on the council's financial position and will be a key issue to address.

### Scope of Work

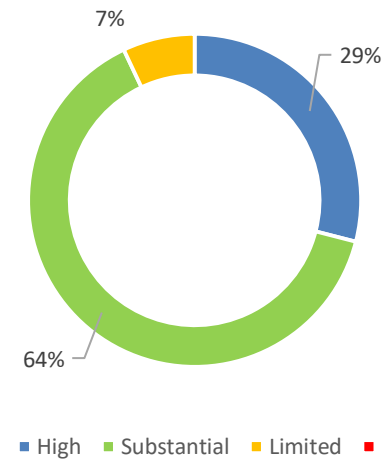
The charts in **Figure 3** shows the assurance opinions given in 2019/20 compared to those in 2018/19. Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment.

The overall assurance levels have remained broadly similar during 2019/20.

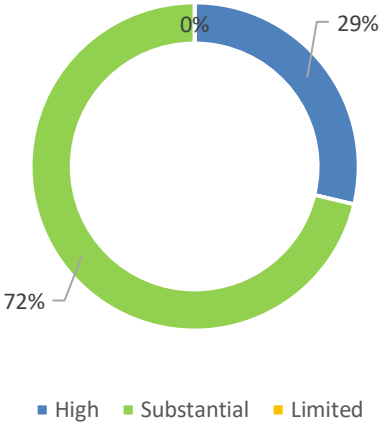
### Comparison of Assurances (finalised audits only)

	2018/19	2019/20
High	4 (29%)	3 (28%)
Substantial	9 (64%)	8 (72%)
Limited	1 (7%)	0
Low	0	0

Assurance levels 2018/19



Assurance levels 2019/20



**Figure 4 – Recommendations Made**

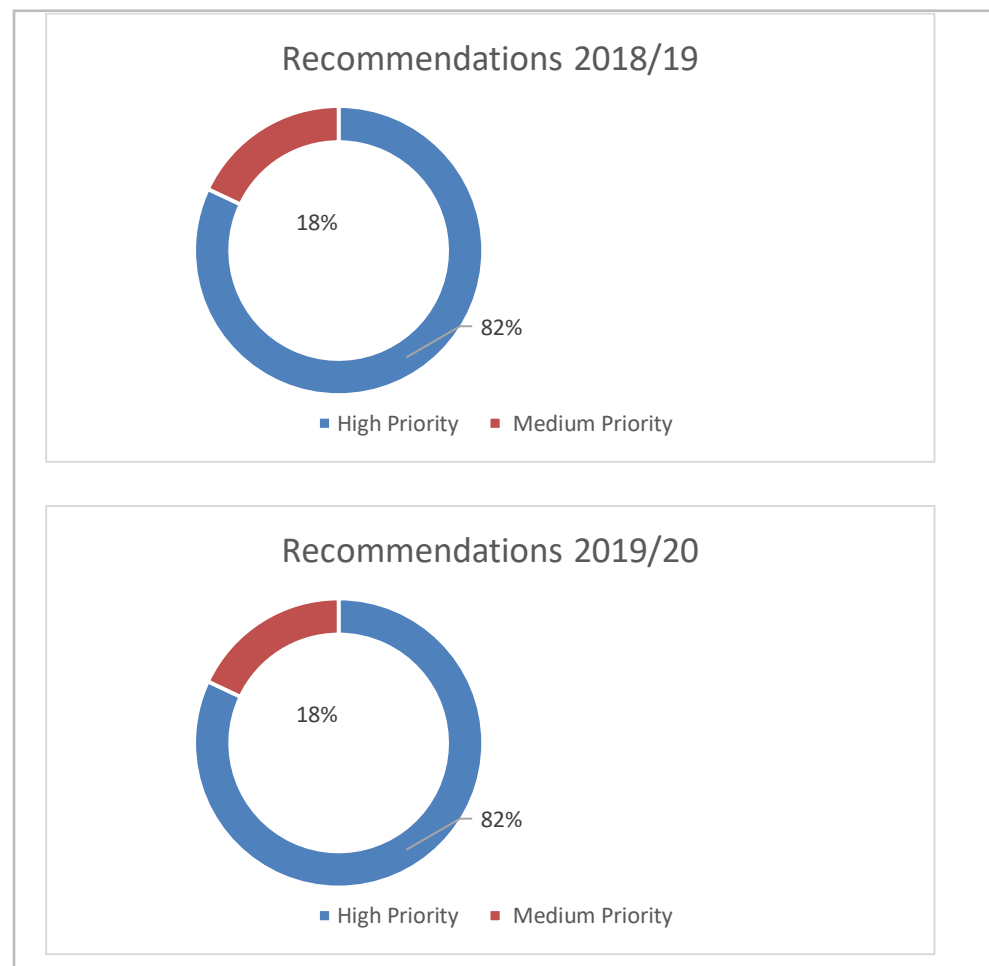
The charts in **Figure 4** show the comparison of internal audit recommendations made in 2018/19 compared to 2019/20. Details of systems reviewed can be found in Appendix 1

We track the implementation of agreed actions. Over the year management have implemented 83% of the recommendations due by the 31<sup>st</sup> March 2020, an increase from 2018/19 (79%). Details of outstanding recommendations can be found in Appendix 1.

**Number of recommendations made (finalised audits only)**

	2018/19	2019/20
High	8	11
Medium	36	51
<b>Total</b>	<b>44*</b>	<b>62</b>

*\*NB some audits were being finalised and these numbers are not included*





## Delivery of internal audit plan 2019/20

The Audit Committee approved the Audit Plan on 7<sup>th</sup> February 2019. We delivered 96% of the revised plan by the end of the financial year.

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 try to improve performance.

Performance Indicator	Target	Actual @ 31/03/2019
Percentage of revised plan completed.	100%	96%
Percentage of key financial systems	100%	75%*
Percentage of recommendations agreed	100%	98%**
Percentage of recommendations due implemented	100% or escalated	83%
Timescales:		
Draft report issued within 10 working days of completing audit	100%	100% (10 out of 10)
Final report issued within 5 working days of closure meeting / receipt of management responses	100%	100% (5 out of 5)
Period taken to complete audit within 3 months from fieldwork commencing to the issue of the draft report	80%	90% (9 out of 10)
Client Feedback on Audit (average)	Good to excellent	Good to excellent

\*Key financial systems - relates to partial completion of the Efficiency audit; will be completed in early 2020/21

\*\*1 Medium priority recommendation not agreed in the Recruitment audit

## Restrictions on Scope / Disagreements

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.

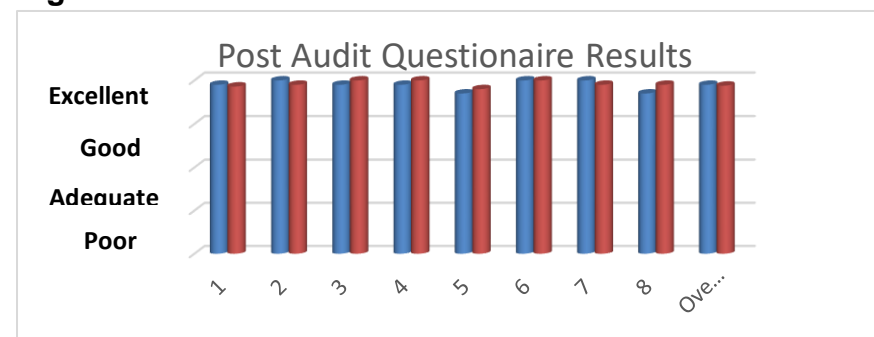
Audit work is scheduled to fit around the work demands of the client and it is very rare that we have difficulties in gaining access to staff, which results in some delay or inability to deliver planned work within the expected timescales.

## Effectiveness of Internal Audit

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.

The table in **Figure 5** shows the responses by management on our service provided. For 2019/20 there was an 80% questionnaire return rate (similar to the previous year) and the good to excellent average rating was maintained with similar scores across all areas.

**Figure 5 – Client Feedback**



**Key: Blue: 2018/19, Red: 2019/20.**

### 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

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.

Our commitment to quality begins with ensuring that we recruit develop and assign appropriately skilled and experienced people to undertake your audits.

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.

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.

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.

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)

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.

An external quality assessment was completed in October 2016, which found general compliance with PSIAS, and was reported separately to Audit Committee.

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.

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 2019/20

Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	Outstanding			Notes	Direction of Travel
					High	Medium	Not Yet Due		
<b><u>Completed Work</u></b>									
Emerging Legislation	June 2019	High	0	N/A					↔
Information Management	June 2019	Substantial	16 (3H 13M)	15		1			Not previously audited
Boultham Park (Final Account)	July 2019	Substantial	1 (M)	1					↔
Procurement	July 2019	Substantial	4 (4M)	3		1			↔
Fire safety*	July 2019	Substantial*	7 (3H 4M)	7					Not previously audited
Housing Benefit Subsidy	July 2019	Testing	N/A					Work on behalf of External Audit	
Election Claim (May 2019 European)	Oct 2019	Testing	N/A						
Private Sector Housing HMO (previously Limited)	Nov 2019	Follow up	20	17	2	1		Not counted in rec stats as follow up.	N/A
Recruitment	Dec 2019	Substantial	7(2H 5M)	6			1 (H)		Not previously audited
Housing Rents	Dec 2019	Substantial	4(2H 2M)	1	1	2			↔
Values & Behaviours	Jan 2020	Consultancy	4 (4M)				4		Not previously audited
Treasury Management	Feb 2020	High	0	N/A					↔
Licensing	Feb 2020	Substantial	7(7M)				7		Not previously audited
Payroll	Mar 2020	High	2 (2M)			1	1		↑
ICT assurance map	Mar 2020	Consultancy	0*				0*	*Existing ICT action plan	
ICT Anti-Malware	Mar 2020	Substantial	10 (1H 9M)	1		1	8 (1H)		↔
<b>Total</b>			<b>62</b>	<b>34</b>	<b>1</b>	<b>6</b>	<b>21</b>		

## Appendix 1 Internal Audit Assurances Given 2019/20

Audit Area	Date	Assurance	Total High / Med Recs	Outstanding				Notes	Direction of Travel
				Implem'd	High	Medium	Not Yet Due		
<b><u>Work To Be Finalised</u></b>									
Homelessness	Draft Mar 2020	Substantial	2 (2M)				2		Not previously audited
De Wint Court	Draft Mar 2020	Substantial	6(3H 3M)				6		Not previously audited
Governance	April 2020	Substantial	0				0		
Risk management	April 2020	Substantial	1 (1M)				1		↔
Housing Allocations	Draft May 2020	Substantial	4 (4M)				4		↑
Efficiency Savings	May 2020	High	0				0		↔
Election Claim (Dec 2019 Parliamentary)		Testing							
Western Growth	C/F to 2020/21	In progress							
Project management	Draft	Limited*	4(3H 1M)	1	2		1	Pending project management PIR	↓
<b><u>Other work</u></b>									
Housing ASB		Advice work	N/A						
Sports and Leisure Pitches		Advice work	N/A						
Brexit		Advice work	N/A						
Counter Fraud		NFI	N/A					NI work completed	
Counter Fraud		Tenancy	N/A					Tenancy fraud –ongoing	
Counter Fraud Policies		Policies	N/A					Anti-bribery & Whistleblowing policies updated	

## Appendix 1 Internal Audit Assurances Given 2019/20

Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	High	Outstanding		Notes	Direction of Travel
						Medium	Not Yet Due		
Counter Fraud		Training	N/A					Training delivered and in progress	
Counter Fraud		Risk register	N/A					Risk register updated	
Counter Fraud		Scams	N/A					Publicity completed	
Combined Assurance		Consultancy	N/A					Completed	
Partnership management / assurance		Advice work	N/A					Completed	

### Audits Deferred

Scrutiny committee - operation & Member training  
 Apprentice scheme - financial arrangements (not 20/21)  
 Housing Repairs - interaction between reactive repairs & planned maintenance  
 Housing Strategy - implementation of the Housing Strategy including links with Major Development  
 Performance management - new system  
 Growth and Regeneration - strategies, investment, partnerships, infrastructure  
 Fraud – health check, money laundering risk, identity fraud  
 Refuse and recycling – procurement arrangements

### Work brought in

Housing ASB  
 Brexit  
 De Wint Risk assessment

## Appendix 1 Internal Audit Assurances Given 2019/20

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Total High / Medium 2019/20 Recs Made = 62 (Completed audits only)

Total not yet due = 21

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Net = 41

Implemented in full = 34

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% Implemented = 83% (H&M)





## 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



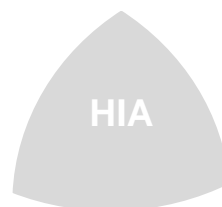
Quality improvement plan - HIA reporting to Audit Committee on the outcome of Quality Assurance – with improvement action plan and any significant non-conformance included in the Annual Report / Annual Governance Statement



### 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.

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### 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

<b>High</b>	<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>
<b>Substantial</b>	<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>
<b>Limited</b>	<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>
<b>Low</b>	<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>

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

## Appendix 4 - Continuous Improvement Plan

**See attached.**