

Internal Audit Progress Report



City of Lincoln Council December 2020

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John Scott - Audit Manager (Head of Internal Audit)
john.scott@lincoln.gov.uk

Paul Berry – Principal Auditor
paul.berry@lincoln.gov.uk

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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 audit work during the period September – November 2020
- Advise on progress with the 2020/21 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

In this period we have completed the annual Housing Benefit Subsidy testing on behalf of Mazars (the Council's External Auditors) but we have not completed any assurance reviews.

Work on the 20/21 Audit Plan commenced as planned in September but some pieces of work have been paused to allow the team to help the Business Cell assess and pay lockdown grants to businesses. This will impact on the Audit Plan, which will be reviewed and reprioritised in January.

Audit Plan completion at the end of November is 51% against the target of 54%.

Assurances

No assurance reviews have been completed in this period.

Consultancy – Housing Benefit Subsidy testing

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.



Audit Recommendations

A review of recommendations due and overdue has been undertaken and a Recommendation Follow Up report is attached as a separate item.

Work in Progress

- All Weather Pitches (Consultancy) – fieldwork stage. Delayed due to Covid
- Rogue Landlord PIR (Consultancy) – fieldwork stage. Delayed due to Covid
- Covid-19 Assessment. Discussions have been held with Assistant Directors and the results are being evaluated. Currently on hold due to work being reprioritised so that the Business Cell can be supported.
- Council Tax key controls – fieldwork stage. Currently on hold due to work being reprioritised so that the Business Cell can be supported.
- Western Growth – fieldwork stage. Currently on hold due to work being reprioritised so that the Business Cell can be supported.

Other work

- Combined Assurance. The annual process to refresh the Council's Combined Assurance Map and produce a Report has started. Questionnaires have been issued to service managers and the results will support discussions with Assistant Directors in January.

Non-Audit Work

- Business Grants. The team are supporting the Business Cell to assess applications and make payments for grants available during the second lockdown.
- Test & Trace Support Payments. Advice was provided to this Cell to establish a process and a small sample of applications were reviewed to check compliance. Work on this is now complete.

Benchmarking



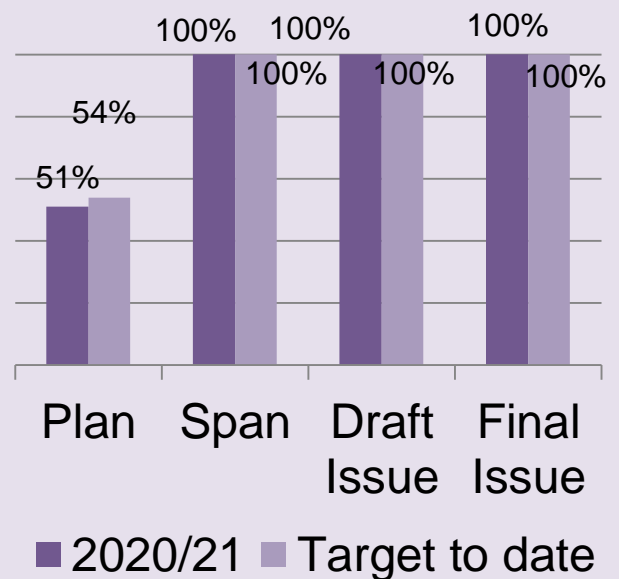
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators (2020/21)

100%

Rated our service Good to Excellent

Good achievement of Audit KPI's to date



Other matters of interest

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

Audit Scotland – Guide for Audit and Risk Committees

Audit Scotland produced the above guide for public bodies and auditors which sets out some key questions for them to consider in respect of Covid-19. The guide focuses on the short-term challenges facing public bodies in the response phase of the pandemic. Key areas that Audit & Risk committees will need to focus on include;

Internal controls and assurance The pressures faced by local authorities have led to the need for more rapid decision making and flexibility in the workforce, therefore there has been a necessity for the relaxation of some internal controls. The implementation of remote working has also increased some other risks such as cyber-crime.

Financial management and reporting The pandemic has had a significant impact on local authorities in terms of its sources of income and additional costs incurred. The pandemic may also impact on the value of investments, property and potentially the collection of outstanding debts. Accountants involved in the processing of the information and reporting may also be stretched.

Governance The pace of change has led to the necessity for faster decision making which may have led to changes in the governance process, reducing the opportunity for scrutiny and due diligence. There may also have been increased collaborative working and reliance on partners.

Risk management Risks will need to be monitored carefully and frequently to ensure they reflect the current situation and decisions around the risk appetite will also need to be considered. The guide includes suggested questions to help committee members effectively scrutinise and challenge these key areas and better understand how their organisation is responding to the pandemic and managing both the immediate and longer-term challenges that it creates.

[Audit Scotland - Guide for Audit & Risk Committees](https://tinyurl.com/y3ujaozg) (<https://tinyurl.com/y3ujaozg>)

Guide for Audit and Risk Committees on financial reporting and management during Covid-19 (<https://tinyurl.com/y3pyoeto>)

This best practice document was produced by the National Audit Office and aims to help audit and governance committee members discharge their responsibilities and examine the impacts on their organisations of the Covid-19 outbreak. The key areas are;

- Annual Reports
- Financial Reporting
- The control environment
- Regularity of expenditure

It provides the audit committee with reasoning as to how Covid-19 may have affected certain procedures, how Authorities may have adjusted their processes to mitigate these issues and, most importantly, the key questions the Committee can ask to gain assurance in these areas.

The document can be provided in full on request.

We are currently undertaking some audit work on COVID impacts and taking the above areas into account. We have considered these areas with the S151 as part of this work.

Other matters of interest

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

Redmond Review

There has been an independent review into the oversight of Local Audit and the transparency of Local Authority financial reporting. It was published in September and key findings include;

- Concerns expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms
- The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way
- There is merit in Authorities examining the composition of Audit Committees in order to ensure that the required knowledge and expertise are always present when considering reports, together with the requirement that an annual report be submitted to Full Council

A key recommendation is to create a new regulatory body responsible for procurement, contract management, regulation, and oversight of local audit. It is recognised that the new body will liaise with the Financial Reporting Council with regard to its role in setting auditing standards.

[Redmond Report](https://tinyurl.com/y4jrfokb) <https://tinyurl.com/y4jrfokb>

Officers will prepare a report for Audit Committee early in the new year to cover some of these areas in more depth.

Major Local Audits - Audit Quality Inspection

The FRC is the independent body responsible for monitoring the quality of Major Local Audits as defined by the Local Audit (Professional Qualification and Major Local Audit) Regulations

2014. This monitoring is performed by the FRC's Audit Quality Review ('AQR') team. Our reviews of individual Major Local Audit engagements are intended to contribute to safeguarding and promoting improvement in the overall quality of Local Audit auditing in the UK. Audit firms are required to audit the financial statements and Value for Money ("VFM") arrangements conclusion and exercise their statutory reporting powers, as required, in accordance with the Local Audit and Accountability Act 2014.

The overall results for their inspection of 15 financial statement audits across the seven firms were concerning, with just 40% of audits requiring no more than limited improvement (64% in 2018/19). Urgent action is required from some of the firms to take appropriate action to respond to our findings to ensure improvements are made in audit quality, given the deterioration in quality in the year.

Other matters of interest

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

Major Local Audits - Audit Quality Inspection

Each accountancy firm provided a detailed response.

Mazars response: Our commitment to audit quality is at the core of our values and we are dedicated to the continuous improvement of our audit work and the service we provide to our audit clients. Whilst we are pleased with the results of the AQR's reviews of our work on Value for Money conclusions (which show only limited improvements identified for a number of years), we are disappointed with its findings on our work on the audit of the financial statements at 2 of our local audit clients. The firm will robustly respond to the findings and has plans in place to improve the quality of our local audit work.

We have prepared a Local Audit Quality Plan, which is a sector-specific element of our firm-wide Audit Quality Plan. These draw together information on risks to audit quality from a range of sources including quality monitoring findings, changes to auditing and financial reporting standards, and feedback from auditors. The Local Audit Quality Plan has also taken account of the AQR's findings and emerging audit quality risks arising from the update of Practice Note 10 and the National Audit Office's Code of Audit Practice. This plan will be maintained by the firm's Audit Quality Team and subject to oversight from our Audit Board.

The full report can be found at www.frc.gov.uk (<https://tinyurl.com/yxj565h4>)

Other follow up points

Boultham Park Restoration Project

We have a drafted evaluation (PIR) document, but not a final document as we need to ensure that it includes all of the outcomes and learning from the project. Our aim was therefore to have the final evaluation report agreed early in the new year. There is a key piece of specialist work still to complete but due to Covid and other factors this currently has not yet been completed and should commence Spring 2021, mainly due to weather issues. We will asking the NLHF to extend the project end date in to 2021. Subject to budget being available, there is a small wall restoration that the NLHF are keen for us to undertake before the project is confirmed as complete. We will then carry out the final financial review and finalise the evaluation plan. In the meantime, work has been moving ahead at a pace on the lake restoration. This 'second phase' of the restoration of Boultham Park has its own evaluation plan and will be the subject of a separate evaluation report at the end of the project.

IT access – the recommendations/agreed actions from the ISA 260 report have been included within the Audit Recommendation report.

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.

A Recommendation Follow Up report is attached as a separate item.

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Covid-19 Assurance (NEW)	Determine any impacts on the risk & control environment.	Sept 20	Sept 20		In progress
Finance & Accounting	Budgetary control key controls	Feb 21			
Creditors	Risk Based Audit	Feb 21			
Debtors	Risk Based Audit	Feb 21			
Business Continuity / IT Disaster Recovery	Follow up of 2017/18 audit	Mar 20			Depends on progress and update of IT DR plan
NNDR	Risk Based Audit	Nov 20			In progress
Council Tax	Key Controls	Nov 20			In progress
Housing Benefit & CTS	Risk Based Audit	Jan 20			
Partnerships	Annual assurance report to Audit committee	Feb 21			
ICT 1	IT security - Combined Assurance follow up	Dec 20			
ICT 2	Office 365	Jan 21			
ICT 3	Key risks/changes since March 20	Jan 21			
De Wint Court	Risk management support	-			Ongoing support
Health & Safety	Risk assessment oversight & authorisation	Jan 21			

