

Internal Audit Annual Report 2020/21



What we do best...

Innovative assurance services
Specialists in internal audit
Comprehensive risk management
Experts in countering fraud

...and what sets us apart

Unrivalled best value to our customers
**Existing strong regional public sector
partnership**
**Auditors with the knowledge and expertise to
get the job done**
**Already working extensively with the not for
profit and third sector**

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

Purpose of Annual Report


The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2020. In particular:-

- Include an opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it;
- Inform how the plan was discharged and the overall outcomes of the work undertaken that supports the opinion;
- A statement on conformance with the PSIAS and the results of the internal audit quality assurance);
- Draw attention to any issues particularly relevant to the Annual Governance Statement

Annual Opinion

For the twelve months ended 31 March 2021 the Council's arrangements for governance, risk management and control have not been substantially affected by coronavirus.

Based on the work we have undertaken and information from other sources of assurance, my opinion on the adequacy and effectiveness of the Council's arrangements for governance, risk management and control is:-

Governance 	Performing Well —No concerns that significantly affect the governance framework and successful delivery of the Council priorities
Risk 	Performing Well – No concerns that significantly affect the governance framework and successful delivery of the Council priorities
Internal Control 	Performing Adequately — Some improvements identified over the Council's Governance, Risk and Control framework or to manage medium risks across the Council
Financial Control 	Performing Well —No concerns that significantly affect the governance framework and successful delivery of the Council priorities

Governance



"Achieving the Intended Outcomes While Acting in the Public Interest at all Times"

It is comprised of systems, processes, culture and values, by which the Council is directed and controlled and through which they account to, engage with, and where appropriate, lead their communities.

Each year the Council is required to reflect on how its governance arrangements have worked – identifying any significant governance issues that it feels should be drawn to the attention of the public – in the interests of accountability and transparency.

At the time of writing this report the 2020/21 Annual Governance Statement is being drafted. The significant issues raised at the 19-20 AGS were around IT Disaster Recovery, review of the impact of Coronavirus on the council's service delivery and embedding new ways of working for staff and the launch of vision 2025.

During 2020/21 progress was made with new IT infrastructure and progress towards alignment with Business Continuity plans. Further improvements will be made during 2021-22 and disaster recovery and business continuity plans will be finalised at the financial year end.

The onset of Covid19 and subsequent lockdown has had a significant impact on all areas of the public sector.

The impact on governance will be felt by all organisations and there will be some aspects experienced by all, for example changes to decision making arrangements and the conduct of meetings.

Other aspects will reflect changes to the organisation's priorities and programmes

The Council has fast tracked its agile working approach with the roll out of Office 365 and this project is ongoing. Tackling COVID-19 and recovery has meant Vision 2025 (the Council's strategic plan) will be re-profiled and re-prioritised and then communicated.

COVID-19 impacted on budgets in 2020/21, but with government support and early budget decisions taken to reduce expenditure in year, then the Council was able to maintain a balanced budget position. It was also able to deliver against it's Towards Financial Sustainability (TFS). Despite this the Council still faces a significant financial challenge over the period of it's MTFs.

Governance



"Achieving the Intended Outcomes While Acting in the Public Interest at all Times"

It is comprised of systems, processes, culture and values, by which the Council is directed and controlled and through which they account to, engage with, and where appropriate, lead their communities.

The full impact of the coronavirus is still largely unknown, but we recommend that the Annual Governance Statement includes details of the impact of Covid 19 and proposals for activity in 21-22.

The Audit Committee helps to ensure that governance arrangements are working effectively. They regularly review the governance framework and consider the draft and final versions of the Annual Governance Statement.

The outbreak of Covid-19 has had a significant impact on the Council in terms of Finance, resource and governance. The Council has had to respond swiftly to the ever-changing environment to deliver new and existing operations. The governance framework in place has operated well in these challenging times

Governance assurance



**Assessed as Performing
Well**

Risk



Good risk management is part of the way we work. It is about taking the right risks when making decisions or where we need to encourage innovation in times of major change – balancing risk, quality, cost and affordability. This puts us in a stronger position to deliver our goals and provide excellent services.

The Council's risk management arrangements were assessed as Green through the combined assurance review. The Council's Risk Management Strategy was due to be updated in 2020 but following the Covid-19 emergency this will be completed for approval in July 2021. Training will also be delivered in 2021/22.

Over the year, the Council has continued with existing arrangements to monitor and report the quarterly strategic risk management position to Executive.

We audited the Council's Risk Management arrangements in 2021 and this achieved substantial assurance. Risk is managed at various levels within the organisation – Strategic, Directorate, Project, Fraud, Partnership and Financial (for example integral to the MTFS).

We found that the link between Directorate and Strategic risks could be strengthened further and project risk registers, in some areas, could also be more regularly reported to Project Boards, although we found risks were being actively managed.

The above information helped inform the Head of Internal Audit opinion.

Risk Management assurance



Assessed as Performing Well

Internal Control



We take account of the outcome of our audit work during the 2020/21 year. As our audit plans include different activities each year it is not unexpected that assurance varies. However the assurance levels still give insight into the Council's control environment.

Our opinion is based on a number of sources of intelligence including the outcome of our internal audit work, the combined assurance work and other sources.

During 2020/21 we have not issued any Limited or Low assurance reports.

Our combined assurance work found similar levels of assurance to previous years, despite the pandemic.

We reduced our internal audit plan for 2020-21 to provide Covid support.

We completed work in key areas including financial systems, ICT, projects as well as our combined assurance work which looks at assurance across the whole council.

During the year we have made 3 High and 13 Medium recommendations for improvement.

At the time of this report, there were no outstanding recommendations from the current audits and 35 from previous years (across ten audits).

See appendix 1 for full details of audits completed during the year.

From our combined assurance work there were some amber assurances linked to areas such as information governance, ICT, performance management, service planning and appraisals, disaster recovery, financial resilience, partnership governance. Many of these had been impacted

by Covid-19 with resources diverted to tackling the pandemic.

We also took account of our internal audit work 2020-21, audit recommendation follow up work and AGS significant issues progress.

We have assessed internal control as performing adequately based on some outstanding ICT actions including the need to update IT security policies and guidance, roll out security training and other areas.

Internal Control



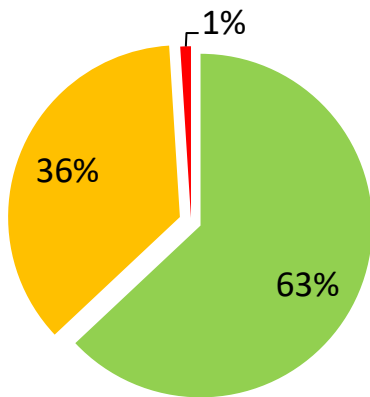
Assessed as Performing Adequately



A Combined Assurance Status review has been produced this year collating information from each Assistant Director and Service Manager on the level of confidence they can provide on service delivery arrangements, management of risks, operation of controls and performance for their area of responsibility. This information provides key assurance evidence to support the Head of Internal Audit opinion.

Combined Assurance

Overall Assurance Status 20/21



■ High (Green) ■ Medium (Amber)
■ Low (Red)

The overall assurance status is positive with most areas receiving a Medium (amber) or High (Green) level of assurance.

There are two areas with a Low (Red) level of assurance; Leisure Centre's and the Lincare Emergency Control Centre.



Our audit plans include providing assurance over our key financial systems, the level of risk influences frequency.

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:

- Covid-19 Assessment – **Substantial Assurance**
- Western Growth Project Management – **Substantial Assurance***
- Council Tax key controls - **High Assurance**
- Accountancy Key Controls – **High**
- Debtors Key Controls - **High**
- Creditors Key Controls - **High**
- NNDR – **High Assurance**

A key piece of work will be to review control systems to ensure they continue to be fit for purpose with the new ways of working and this is planned.

The Council has good financial management processes in place.

The Council responded to the financial situation caused by covid-19 including revised budget estimates, enhanced TFS programme, expenditure control budget review process.

Covid-19 impacts on every Council's finances. This impact is unlikely to be fully realised until recovery is complete, however the Council's MTFS has been updated to reflect current financial planning assumptions.

The combination of remote working, staff redeployment and the swift introduction of new processes also heightens the risk around financial control.

Financial Control assurance



Assessed as Performing Well



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.

Scope of Work

Our risk based internal audit plan was prepared taking into account the critical activities and key risks to support the basis of my annual opinion. It has remained flexible to enable us to respond to emerging risks and maintain effective focus.

The Audit Committee approved the revised 2020/21 audit plan of **224 days** in September 2020. We have delivered 89% of the revised plan and more details on the plan can be found in Appendix 1. Some further assistance was provided to support Covid related Business Support grants in the second half of the year.

Restriction on Scope

In carrying out our work we identified no unexpected restrictions to the scope of our work.

I do not consider the restrictions and changes to the plan to have had an adverse effect on my ability to deliver my overall opinion. The combined assurance work undertaken in December helped in this regard.

We have not experienced any impairment to our independence or objectivity during the conduct and delivery of the Internal Audit Plan.

Limitation of scope (to provide an annual opinion) We have reviewed the CIPFA guidance “addressing the risk of a limitation of scope”

Although there was a reduction in the audit plan due to the Covid pandemic, I feel that sufficient assurance has been obtained through the range of audits concluded to provide assurance over governance risk and internal control and therefore there is not a need for a limitation of scope statement or statements as per CIPFA guidance. We have where possible also drawn on our combined assurance work and other external assurances.

The audit team were involved in supporting and administering the Covid Business Support grants team during 20-21, however there are a range of assurance mechanisms that are in place (or will be in place) to provide assurance around Covid grants and test and trace payments. These include assurance returns to BEIS, NFI data matching, post payment assurance and work by the external auditor.

Our Work



Internal Audit's role include advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Other Significant Work

During the year we have completed testing of Housing Benefit Subsidy on behalf of the External Auditors, Mazars.

We produced a Combined Assurance report which maps all assurance across the Council using the 'three lines of assurance' model. This provided the Council with insight over the assurances present on its critical activities, key risks, projects and partnerships. This was presented to the Audit Committee in March 2021 by the Chief Executive.

We also undertook more detailed work on ICT security assurances and provided some consultancy advice on the newly created ICT risk register.



We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards (PSIAS). We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.

Quality Assurance

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 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.

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.

Assurance Lincolnshire conforms to the UK Public Sector Internal Audit Standards. An External Quality Assessment was undertaken in September 2016, and we are starting to plan for next assessment in 2021/22. No areas of non-compliance with the standards that would affect the overall scope or operation of the internal

audit activity was identified.

Our quality assurance framework helps us maintain a continuous improvement plan, which includes the following:

- Updating the Internal Audit Charter (Completed March 2021)
- Review of the audit practice manual (ongoing)
- Support development of the Audit Committee
- Continuing professional development around new and emerging practice guidance.

The current QAIP (Quality and Improvement Plan) is attached at Annex A with areas for improvement.

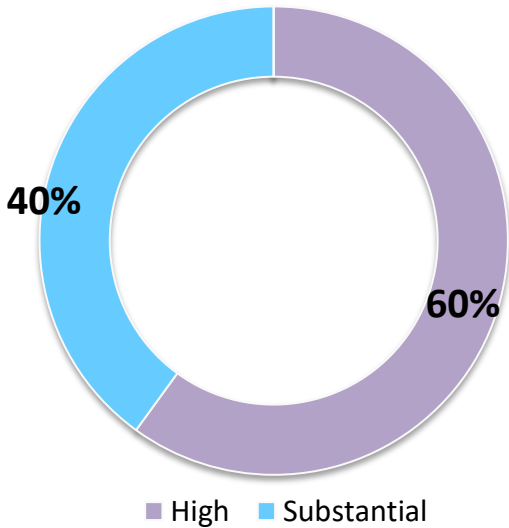
Although internal and external auditors carry out their work different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work where it is appropriate.

Benchmarking



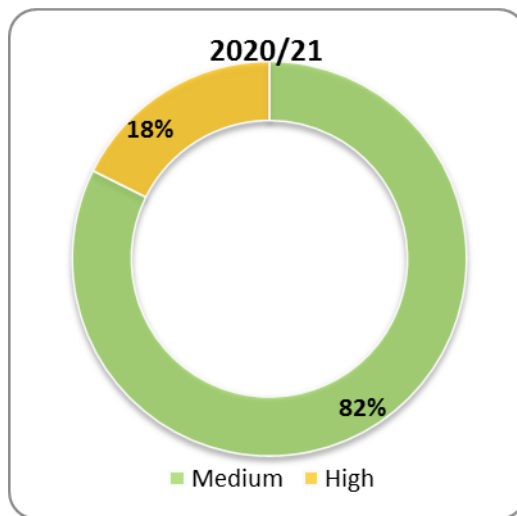
Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment and forms part of the evidence that helped inform the overall annual opinion.

Assurances



No Low or Limited reports this year

Recommendations



Further details can be found at appendix 1 & 3



Internal Audit's performance is measured against a range of indicators. The table at Appendix 4 shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement in delivery of the revised plan and the added value of our work.

Performance on Key Indicators

89%

**Of revised
plan delivered**

**100% of agreed
actions due
implemented**

100%

**Of key
financial
systems
delivered**

ICT Assurance Map (follow up)	N/A	Consultancy				
Covid-19 Assessment	Substantial	Risk Based Audit	1	0	0	1
Council Tax Key Controls	High	Risk Based Audit	0	1	0	1
Accountancy Key Controls	High	Risk Based Audit	0	1	1	1
Creditors Key Controls	High	Risk Based Audit	0	1	0	1
Debtors Key Controls	High	Risk Based Audit	0	0	0	0
NNDR	High	Risk Based Audit	0	1	0	1
ICT Office 365	Substantial	Risk Based Audit	0	6	3	6
Western Growth	Substantial	Risk Based Audit	1	3	3	4
Governance	High	Risk Based Audit	0	0	0	0
Risk Management	Substantial	Risk Based Audit	1	1	0	2
Covid Business Grants	N/A	support/consultancy				
De Wint Court Risk Management support	N/A	Consultancy				
Counter Fraud (NFI / Policies / LCFP, etc)	N/A	Consultancy				
Housing Benefit Subsidy	N/A	Consultancy				
ICT risk Register	N/A	Consultancy				
Covid Test & Trace Self Isolation Payments	N/A	Consultancy				
Sub total			3	14	7	17

The original approved Plan for 2020/21 was 400 days and this was revised down to 224 days in September 2020 following the utilization of audit resources in other areas to provide support during the pandemic.

Some audits in the original Plan will be picked up in 2021/22 and some have been removed - this was due to re-prioritising those areas required for annual opinion purposes.

The audits set out below have been removed from the original plan:

- Scrutiny
- Void Management
- Planning Heritage
- Disabled Facilities Grants
- Project & Programme Management
- Contract Management & Supplier Resilience
- Housing Repairs

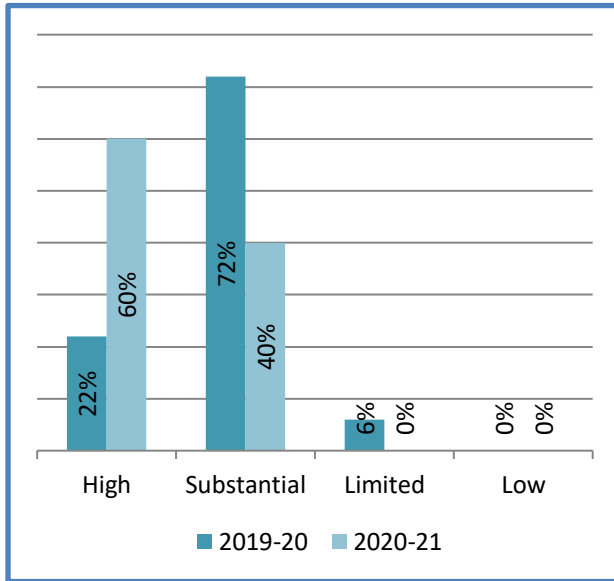
The following audits were deferred to the 2021/22 Plan;

- Business Continuity & IT Disaster Recovery (deferred due to client resources)
- Partnerships (commenced and concludes 21-22)
- ICT Programme Management
- Health & Safety Risk Assessments (deferred due to client resources)
- Town Deal (deferred - initial assurance work by BEIS)

- Rogue Landlord PIR (commenced and deferred due to client resources)
- Housing Benefits & Council Tax Support (Commenced May 21)

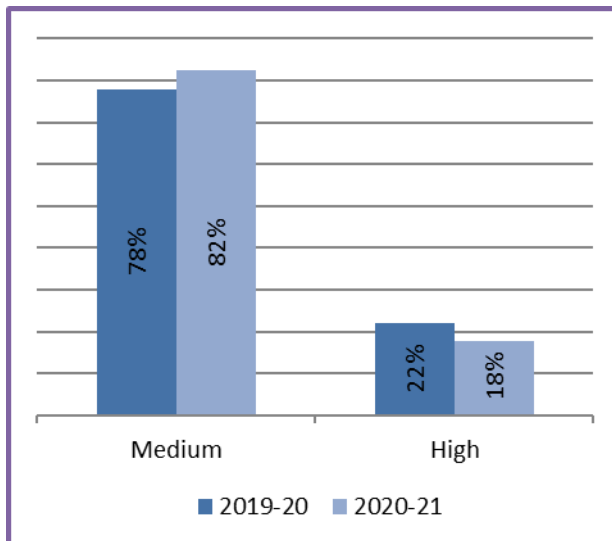
The Audit Plan remains flexible with a process to postpone and change audits. This means we can adapt our plan and coverage to emerging risks but maintain control and transparency on changes which must be approved by management and the Audit Committee.

Comparison of Assurances 2019/20 and 2020/21



No Low or Limited reports

Comparison of Recommendations 2019/20 and 2020/21

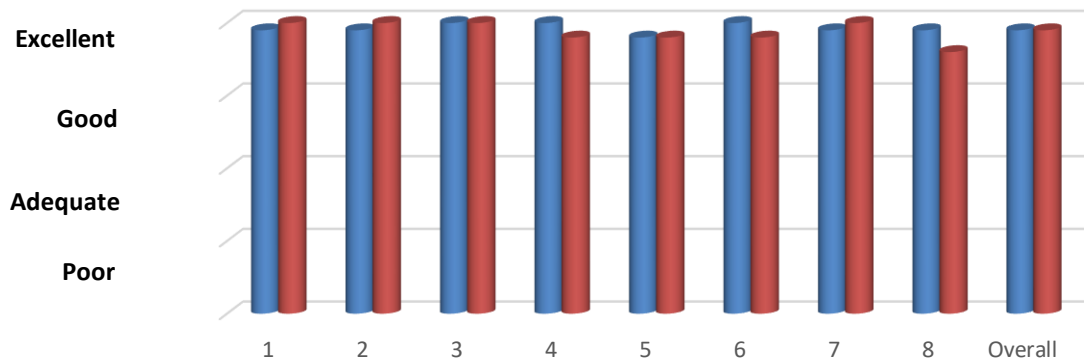


Performance on Key Indicators

Performance Indicator	Annual Target	Actual
Percentage of plan completed (based on revised plan)	100%	89%
Percentage of key financial systems completed	100%	100%
Percentage of recommendations agreed	100%	100%
Percentage of recommendations due implemented	100% or escalated	100% (1 due & implemented)

Client Feedback

Post Audit Questionnaire Results



Key: Blue: 2019/20, Red: 2020/21.

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

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.

Performing Well—No concerns that significantly affect the governance framework and successful delivery of the Council priorities

	<p>Performing Adequately— Some improvements identified over the Council’s Governance, Risk and Control framework or to manage medium risks across the Council</p>
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Inadequate Performance – Critical action required by management throughout the Council

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Significance

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.

Head of Internal Audit Annual Opinion

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.

Governance

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.

Risk

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.

Control

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.

Impairment

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).