

# Internal Audit Annual Report 2021/22



## **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**

# Contents

**Purpose of the Report** Page 2

---

**Annual Opinion** Page 3

---

Governance  
Risk  
Internal Control  
Financial Control

**Our work** Page 9

---

Scope of Work  
Restriction of Scope  
Other Significant Work  
Quality Assurance

**Benchmarking** Page 12

---

Assurances  
Recommendations  
Key Performance Indicators

**Appendices** Page 14

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1 - Details of Audits  
2 - Details of Plan Changes  
3 - Benchmarking  
4 - Assurance Definitions  
5 - Glossary of Terms

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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

## Introduction

For the twelve months ended 31 March 2022 working practices continued to change as a result of the coronavirus pandemic.

Operationally, priorities changed during the year as the Government guidance in respect of the pandemic changed, staff continued to work remotely, and some were redeployed to other service areas. We also found face to face Committee meetings being reintroduced.

Financially, the Council continued to be impacted by the effects of the pandemic resulting in a number of significant variances in income and expenditure.


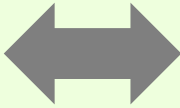






Whilst the restrictions have now been lifted, the impact of the coronavirus pandemic continues to be felt throughout the Council and the processes, procedures etc. which were in place previously will not all return to exactly how they were pre-coronavirus.

My opinion needs to take into account the impact of this on the Council's governance, risk and control environment. In doing this we rely on a number of sources of intelligence including the results of the Council's combined assurance work.

Whilst the work to be undertaken by ourselves is set out prior to commencement of the new year, it is reviewed and revised to reflect the risks faced by the Council as they change throughout the year. We formally reviewed and revised our audit plan following the half year point to reflect the impact of these.

# Annual opinion

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:-

		Direction of Travel
<b>Governance</b> 	<b>Performing Well</b> – No concerns that significantly affect the Council's governance and control framework.	
<b>Risk</b> 	<b>Performing Well</b> – No concerns that significantly affect the risk management framework.	
<b>Internal Control</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>Financial Control</b> 	<b>Performing Well</b> – No concerns that significantly affect the financial control framework.	

## 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 2021/22 Annual Governance Statement (AGS) is being drafted.

The significant issues raised in the 2020/21 AGS concerned IT Disaster Recovery and the re-profiling and re-launch of Vision 2025. Progress has been made on both – the IT DR issue is now at Amber status (a secondary data centre is operational, but a review of the IT DR Plan has been delayed) and the Vision 2025 issue is now at Green status (all key work has been completed).

Corporate Governance was rated Green by management in the 2022 Assurance Map and early in 2022 the Council's Code of Corporate Governance was updated.

Six monthly updates on Information Governance are reported to the Audit Committee and the last one in March 2022 did not raise any issues. E-learning for all staff and councillors covering data protection, data handling, password security, use of social media, phishing and cyber security was rolled out in December 2021. There has been a good level of completion, rates are being monitored with chasing being undertaken.

The ICT Security Policies were updated in February 2022 and are being promoted with staff and Councillors.

An assessment of Partnership Governance for the significant partnerships has been completed with the first batch of results reported to the Audit Committee in March 2022 and the final assessments being report in July 2022. There were no issues identified.

Although the impact of the coronavirus is still ongoing it is now being treated as 'business as usual' and as such it is not being recognised for any special mention in this report.

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.

We have assessed governance as performing well as overall the Council has good Governance processes in place and has renewed several key policies this year. The training on Information Governance will help the Council to protect the data it holds and reduce the potential for successful cyber attacks.

## 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 put us in a stronger position to deliver our goals and provide excellent services.

The Council's risk management arrangements were rated as Green by management in the 2022 Assurance Map, with some qualifying comments;

- The Strategy needs refreshing
- Some training is required
- There has been a lack of time for strategic work

The strategy was last reviewed in July 2018 and states that it will be reviewed at least every three years.

Over the year, the Council has continued with existing arrangements to monitor and report the quarterly strategic risk management position to Executive with the last report being made in February 2022.

There are risk registers in other areas of Council work – major projects, IT, Information Governance, significant Partnerships and directorate service risks.

Recommendations to improve risk management were made in a 20/21 Western Growth Corridor audit and a 21/22 Town Deal audit. These recommendations will be tracked to completion.

Internal Audit carried out a high level review of Risk Management in 2020/21 looking at the operation of the risk management framework. It provided an Substantial Audit Opinion and made a recommendation to make the review process for

the Directorate Risk Registers more robust and report them to the Corporate Management Team quarterly. These have both been completed.

We have assessed risk management as performing well as there are adequate processes in place and action has been taken to implement recommendations made. Management have identified that the Strategy requires refreshing following which further training will be provided and plan to complete this during 2022/23.

## 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 several sources of intelligence including the outcome of our internal audit work and combined assurance work.

During 2021/22 all our reviews were assessed as High or Substantial assurance. There are no Limited or Low assurance reports. See appendix 1 for full details of our audits completed during the year.

Our combined assurance work found similar levels of assurance to previous years – further information is provided on the following page. There were five areas with a Red level of assurance, four of which had resources as contributing towards this. The other affected by repair work.

The need to recruit a new Audit Manager had an impact on resources. The impact was reduced through the appointment of a contractor to complete some of the audits.

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

During the year we made 3 High priority and 19 Medium priority recommendations for improvements – a comparison with the previous year is shown in the Benchmarking section.

There are currently 2 actions from 21/22 audits which have passed their implementation date and have not yet been implemented – new target dates have been agreed and will be monitored.

There are 19 actions from prior years which are

overdue (3 High and 16 Medium) which are being monitored via Audit Committee.

See appendices 1 and 2 for full details of audits completed during the year and changes made to the plan.

The impact of the coronavirus is still ongoing and whilst it is now being treated largely as 'business as usual' as the 'new normal' becomes embedded there are some areas which continue to recover. Mixed with the cost-of-living crisis and the situation in Ukraine there are some services which are not operating as they were previously, and others are undertaking new activities. This can impact on the control processes in place throughout the Council.

We have assessed internal control as performing adequately again this year due to the impact on the Council of coronavirus, similar levels of assurance to last year and there are a high number of actions remaining to be implemented.

## Internal Control assurance



**Assessed as Performing Adequately**

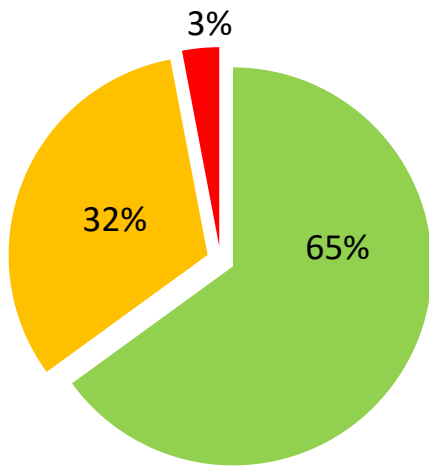




A Combined Assurance Status report is produced by the Council on the level of confidence they can provide on service delivery arrangements, management of risks, operation of controls and performance for their area of responsibility. These reports are reviewed by the Governance & Audit Committee and provide key assurance evidence to support the Head of Internal Audit opinion.

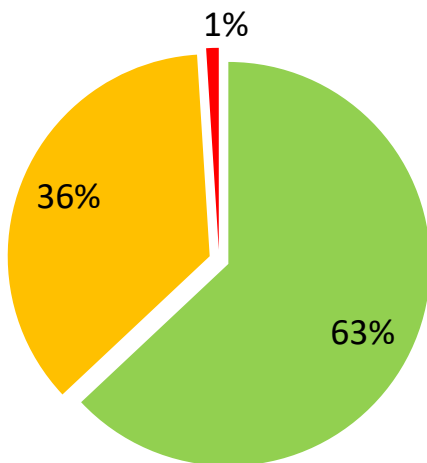
## Combined Assurance

### Overall Assurance Status 21/22



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

### Overall Assurance Status 20/21



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

We gather the Council's assurance intelligence through an annual process across all Directorates. It provides a RAG rating assessment of the Council's Critical Activities, Key Projects and Key Risks.

Overall, there is a positive assurance picture for the Council. There continues to be a high level of assurance (65%), which is slightly higher than last year.

Critical activities identified by Management as having a low level of assurance are:

- Legal – pressures due to reduced capacity and increase in demand.
- Leisure Centre's – Impact of covid and roof repairs on the operations and financial health of the centre.
- Strategic Street Scene Management – complex preparation for the new contracts due to start in September 2026
- Tree Management – currently responsive due to funding.
- Lincare Emergency Control Centre – staff shortages and financial uncertainties.

Management continue to take action to reduce the risks within these areas.

**High levels of assurance have increased by 2% since 2020/21**

# Financial Control



Our audit plans include providing assurance over our key financial systems, this is done on a cyclical basis; however the level of risk will also influence 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 have undertaken work in the following financial areas:

- Housing Benefit Subsidy – High assurance
- Housing Benefit and Council Tax Support – High assurance
- Election expenses – no issues identified
- Visitor Information Centre operations – Substantial assurance
- Income Fees & Charges – Substantial assurance
- Medium Term Financial Strategy – fieldwork in progress, not yet assessed

We have also been advising on various Covid related grants and more recently on the Council Tax rebate.

The combined assurance work identified many of the financial systems as being Green with only a few rated as Amber (Fraud Prevention & Detection, Financial Resilience, VAT, Housing Rent Collection and Counter Fraud arrangements).

Some of these were due to the impacts of Covid-19 including reduced income, lower collection rates, suspension of Single Person Discount reviews, reduced enforcement action to collect debts and additional duties taken on by staff within the revenues services. Members have been kept informed of the impacts through the budget monitoring quarterly reports.

The full financial impact is unlikely to be fully realised until recovery is complete. However management have reported that the MTFS remains robust with action taken as part of the

latest refresh to revise estimates and to carefully use reserves to maintain a balanced position in the short term, whilst longer term savings and interventions are delivered.

A 2021/22 assessment against the CIPFA Financial Management Code found a number of actions in this area including the review of Contract Procedure Rules and Financial Procedure Rules, implementation of the Finance Business Partner approach, implement revised reporting requirements in the Prudential Code and to consider further engagement with stakeholders for budget consultation. These will be included in the AGS and monitored through the Audit Committee.

We have assessed financial control as performing well as despite the uncertainties no issues were identified during audit work, the Council has a Medium Term Strategy in place which has been updated to reflect the estimated impacts of covid, and maintains a robust level of reserves in order to mitigate changes in these assumptions.

## Financial Control



**Assessed as performing well**

## Our Work



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.

Audit Committee approved the 2021/2 audit plan of 275 days in March 2021. The Plan was revised during the year – see Appendix 2 for details.

We have delivered 94% of the revised plan - details of the work completed is set out in Appendix 1.

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

## Restriction on Scope

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

We have worked closely with the Council's senior management team to agree audit scopes and to ensure audit work is progressed.

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



## 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 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 2022 by the Chief Finance Officer.

We have provided advice and guidance on the processes to pay grants paid out on behalf of the Government (Business Grants, Energy Rebate).

In accordance with the PSIAS requirements we were subject to an External Quality Assessment. It was undertaken by CIPFA who found that the Assurance Lincolnshire partnership 'FULLY CONFORM' to the requirements of the PSIAS and the CIPFA Local Government Application Note.

We also;

- Refreshed the Counter Fraud Policy / Strategy and Action Plan
- Completed a review of Internal Audit and Audit Committee effectiveness
- Reviewed the Anti-Bribery Policy
- Refreshed the Fraud Risk Register
- Administered the Whistleblowing cases



## Our Work



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 early 2022 and we were found to 'FULLY CONFORM'.

Our quality assurance framework helps us maintain a continuous improvement plan, which will be refreshed shortly following the external review.

### External Audit

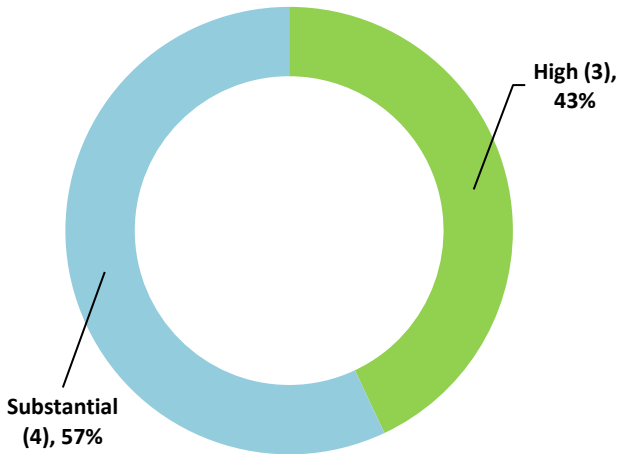
Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work where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



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

2021/22



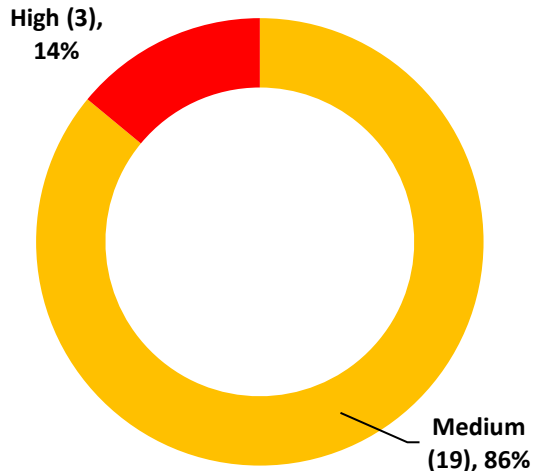
Increase in Substantial assurance opinions (from 40% to 57%)

Reduction in High assurance opinions (from 60% to 43%)



## Recommendations

2021/22



Medium priority recommendations have increased (from 83% to 86%)

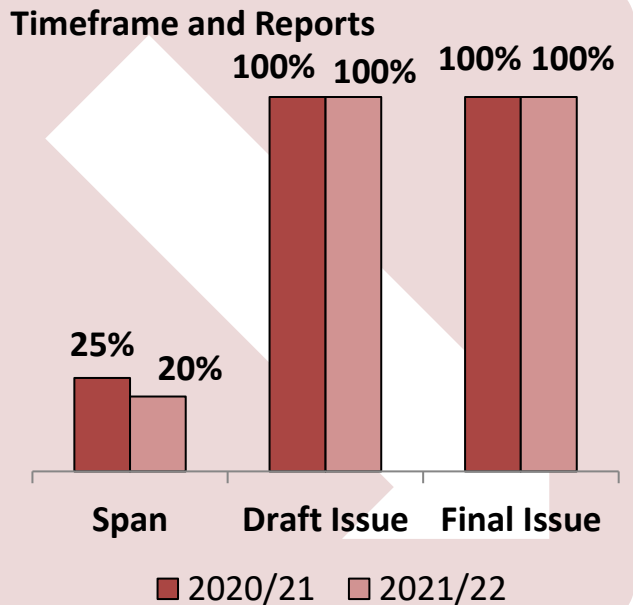
High priority recommendations have decreased (from 17% to 14%)



Internal Audit's performance is measured against a range of indicators. The table in **Appendix 3** shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement in the delivery of the revised plan, but we recognise that improvements are required in the time taken to undertake audits (Span).

## Performance on Key Indicators

**94%**  
Of the plan delivered



Reasons for the Audit Span performance being below the target of 80% include completion of other priority work and delays in receiving information. We are working on a plan of action to improve this going forward.

Audit	Rating	Type	High	Medium	Advisory	Total
Housing Benefit Subsidy	High Assurance	Risk Based Audit	0	0	0	0
Housing Benefit & Council Tax Support	High Assurance	Risk Based Audit	0	2	0	2
Safeguarding	Substantial Assurance	Risk Based Audit	0	5	0	5
Visitor Information Centre	Substantial Assurance	Risk Based Audit	1	6	0	7
Election Claims	N/A	Consultancy	0	0	0	0
Town Deal	High Assurance	Risk Based Audit	0	1	0	1
Income Fees & Charges	Substantial Assurance	Risk Based Audit	1	1	0	2
Planned Maintenance	Substantial Assurance	Risk Based Audit	1	4	0	5
Performance	Not yet finalised	Risk Based Audit	0	0	0	0
Rogue Landlord	N/A	Consultancy work on PIR	0	0	0	0
Stores	Not yet finalised	Risk Based Audit	0	0	0	0
ICT Project and Programmes	Not yet finalised	Risk Based Audit	0	0	0	0
Medium Term Financial Strategy	Not yet finalised	Risk Based Audit	0	0	0	0
	<b>Total</b>		<b>3</b>	<b>19</b>	<b>0</b>	<b>22</b>



The approved Plan for 2021/22 was 300 days, but due to the impact of Covid the 2020/21 Plan took longer to complete than expected and so 25 days were used to complete 2020/21 audits.

At the start of 21/22 a Value for Money (VFM) audit was replaced by a Housing Benefit & Council Tax Support audit that couldn't be done in 20/21. The VFM audit was to support External Audit's annual VFM commentary required under the new code of practice and the CIPFA Financial Code, but as External Audit have started their work it was felt this would be a duplication.

In October 21, due to a resource shortfall while the Audit Manager post was recruited to, three audits were deferred to 22/23 – Medium Term Financial Strategy (MTFS), Western Growth Corridor and Housing Repairs.

Planned work on Leisure Centre's was not within the skillset of the IA team and will be procured from external specialists. The introduction of a new Health & Safety risk assessment process has been delayed so this work is now in the 22/23 Plan. The resource savings from these has allowed the MTFS audit to be brought back into the 21/22 Plan.

An IT Disaster Recovery audit (due to be undertaken by external consultants) has been moved to 22/23 as the project needs to be more advanced to make the audit worthwhile.

The annual 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 (S151 Officer) and the Audit Committee.

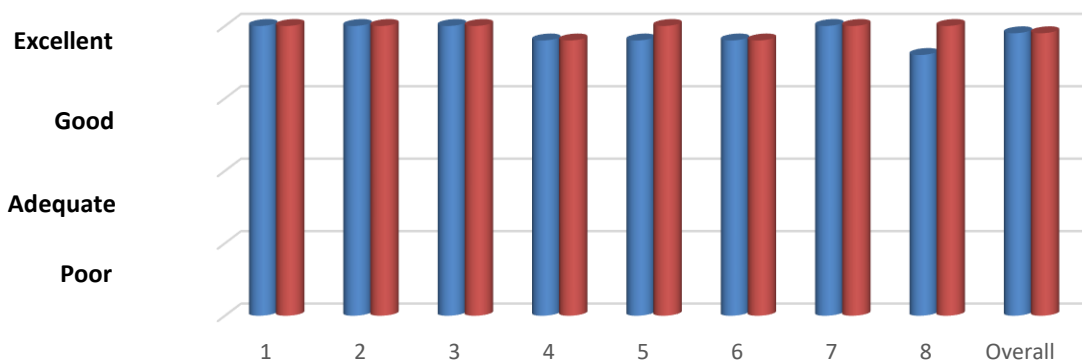
## Performance on Key Indicators

Performance Indicator	Annual Target	Actual
Percentage of plan completed (based on revised plan)	100%	94%
Percentage of recommendations agreed	100%	100%
Percentage of 2021/22 actions due implemented	100% or escalated	78%
Timescales:		
Draft Report issued within 10 days of completion	100%	100%
Final Report issued within 5 days of management response	100%	100%
Draft Report issued within 2 months of fieldwork commencing	80%	20%

Reasons for the Audit Span performance being significantly below the target of 80% include completion of other priority work and delays in receiving information. We are working on a plan of action to improve this going forward.

## Client Feedback

### Post Audit Questionnaire Results



Key: Blue: 2020/21, Red: 2021/22

#### 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.

**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).