

Internal Audit Annual Report 2022/23



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

Introduction

For the twelve months ended 31 March 2023 working practices are now more settled following the covid pandemic. However the way in which the Council works has changed from that which was in place prior to the pandemic and it will not return to exactly how they were.

Staff continue to work from home which changes some of the control measures and arrangements in place for things such as management and performance monitoring.

The energy and cost of living crises have also had an impact on services. Some resources were diverted into government schemes to make payments to support residents with the rising energy costs.

The combined assurance work revealed two common themes throughout the Council; an inability to recruit to vacant posts and financial constraints. A number of long standing staff members have left the Council and the inability to recruit generally is putting greater pressure on those staff remaining. This is having an impact on internal controls as there is pressure to ensure that services are maintained and some of the administrative areas are being delayed or not completed.

Financially, the Council is being impacted by the effects of the economic climate resulting in a number of significant variances in income and expenditure.

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 and our resources. We formally reviewed and revised our audit plan following the half year point to reflect the impact of these.

The Internal Audit Team continues to experience vacancies. We have been unsuccessful in recruiting to the Auditor post and whilst the Principal post was appointed to in February, the new member of staff resigned. We continue to work with our partner and both vacancies will be readvertised.

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

Governance 	Performing Well – No concerns that significantly affect the Council's governance and control framework.	
Risk 	Performing Well – No concerns that significantly affect the risk management framework.	
Internal Control 	Performing Adequately – Some improvement required to manage a high risk in a specific business area and medium risks across the Council.	
Financial Control 	Performing Well – 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 2022/23 Annual Governance Statement (AGS) is being drafted.

The significant issue raised in the 2020/21 and 2021/22 Annual Governance Statement (AGS) concerned IT Disaster Recovery. Progress has been made with a draft plan being drawn up and audited, receiving a substantial audit opinion. This will now be removed as a significant issue from the AGS. There are no significant issues raised this year.

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, the last one, in November 2022, did not raise any issues. E-learning refresher for all staff and councillors covering cyber security was rolled out in December 2022. There has been a good level of completion, rates are being monitored with chasing being undertaken. The Information Governance Group have met several times this year to discuss relevant matters.

An assessment of Partnership Governance for the significant partnerships has been completed with all but one of results reported to the Audit Committee in March 2023, the final

assessment will be reported in June 2023. All assessments had been given a green overall status with no specific concerns.

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 Cyber Security will help the Council to protect the data it holds and reduce the potential for successful cyber attacks. There are some areas which require review and may affect the opinion next year if not addressed these include:-

- Members – succession planning, New Code of Conduct and values training
- Administration of Freedom of Information Requests
- Updating Contract Procedure rules
- Capacity within Legal, Internal Audit and Counter fraud
- Business Continuity Planning.

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

The strategy was last reviewed in July 2018 and states that it will be reviewed at least every three years. It has been identified as needing to be updated although it is not anticipated that there will be significant changes made.

Due to resource constraints the training on Risk Management was not completed in 2022/23. It has now been scheduled in and will be completed early in 2023/24.

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 2023. Work is underway for the next report due in May 2023.

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 have now 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 2023/24. Any further delays in addressing these areas may have an impact on the level of assurance provided in 2023/24.

Risk Management assurance



Assessed as Performing Well

Internal Control



We take account of the outcome of our audit work during the 2022/23 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 2022/23 there was a change to the opinions being given with two audits receiving a Limited level of assurance. See appendices 1 and 2 for full details of audits completed during the year and changes made to the plan.

The change in the level of assurance also impacted on the profile of the recommendations with the number rated High increasing from 3 to 21. A comparison with the previous year is shown in the Benchmarking section.

There are 7 medium actions from prior years remaining to be implemented. This is a significant reduction from the 19 reported last year and is a reflection of the processes which we have put in place to monitor and chase implementation of actions. There are currently 3 of these which are overdue, all of which have an explanation. One is awaiting approval of a policy, another delayed due to staff changes and a further reliant on a contractor. These continue to be monitored through CMT and the Audit Committee.

There were 59 actions agreed during 2022/23 of which 14 have been implemented. None of the remaining ones are overdue and is a result of many of the audits being completed towards the end of the year. A review of a sample of the implemented actions during 2022/23 found that all those stated as being implemented had been implemented.

Our combined assurance work found similar levels of assurance to previous years. There were 7 areas with a Red level of assurance – further information is provided on the following page. The work revealed two common themes throughout the Council; an inability to recruit to vacant posts and financial constraints. The inability to recruit is putting greater pressure on those staff remaining. This is having an impact on internal controls as there is pressure to ensure that services are maintained and some of the administrative areas are being delayed or not completed.

Whilst the impact of coronavirus is now largely 'business as usual', there are other external events which are having an impact on the capacity of the Council. The cost of living and energy crises have led to extra demand in some services and others have been diverted to administer government grant schemes. This further reduces the capacity and could potentially lead to a reduction in internal controls.

Based on the above, on balance, we have assessed internal control as performing adequately again this year.

Internal Control assurance



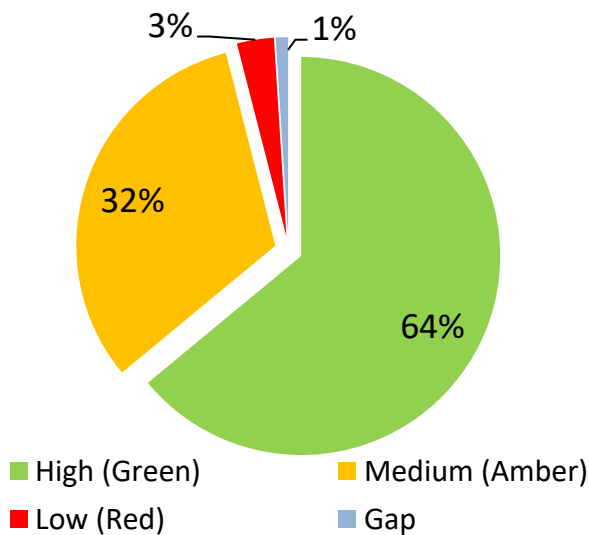
**Assessed as Performing
Adequately**



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 22/23



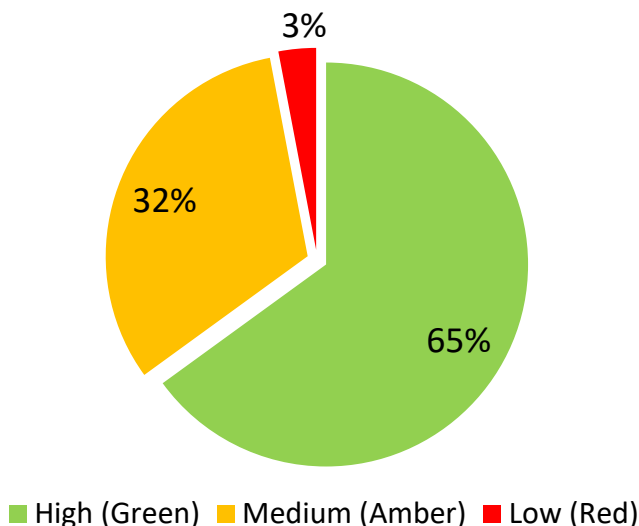
We gather the Council's assurance intelligence through an annual process across all Directorates. It provides a RAG rating assessment of the Council's Critical Activities, Key Projects and Key Risks.

Overall, there is a positive assurance picture for the Council. There continues to be a high level of assurance (64%), which is slightly lower than last year.

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

- Legal.
- Elections and Registration
- Leisure Centre's
- Tree Management
- Housing IT platform
- Events and culture
- PCIDSS

Overall Assurance Status 21/22



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

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
- Medium Term Financial Strategy – High assurance
- Key Control Bank – High Assurance
- Key Control General Ledger – High Assurance
- Key Control Property, Plant and Equipment – Indicative – High Assurance

We have also been advising on the Council Tax rebate payments and the energy grants.

The combined assurance work identified most of the financial systems as being Green. There are 4 rated as Amber (Revenues Fraud Prevention and Detection, Financial Resilience, Internal Audit and Counter Fraud arrangements).

Whilst financial resilience remains a risk the revised Medium Term Financial Plan shows a balanced budget for the next two years. External factors are having an impact on the financial planning but this is being monitored and the plans revised more frequently. This supports the opinion that financial controls continue to perform well.

Members have been kept informed of the impacts through the budget monitoring quarterly reports to the Executive. The last report being February 2023.

The 21/22 AGS reports an assessment against the CIPFA Financial Management Code. Some actions were identified and progress is

monitored through the Audit committee, who received the assessment findings in March 22. A revised version was completed in March 23 and will be used for the 2022/23 AGS.

The CIPFA Financial Management Code assessment 22/23 actions are:-

- Continue to support professional development – ongoing action
- Review CPR
- Undertake assessment against HIA requirements – to be completed
- Implement Finance Business Partnership approach – in progress
- Consider if other major balance sheet items can be made more visible in quarterly reporting – in progress

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 external factors such as inflation and continues to be reviewed.

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 2022/23 audit plan of 313 days in March 2022. The Plan was revised during the year and the days reduced to 228 due to available resources – see Appendix 2 for details.

We have delivered 92% 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 has helped in this regard.



Our Work



Internal Audit's role include advisory and related service activities, the nature and scope of which are agreed with CMT, 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 Corporate Management Team (CMT) in March 2023.

We have continued to provide advice and guidance on the processes to pay grants paid out on behalf of the Government (Energy Rebate).

We have also checked and signed off a number of grant returns for service areas.

We also:-

- Produced the six-monthly and annual fraud reports

- Reviewed the Money Laundering Policy
- Refreshed the Fraud Risk Register
- Reviewed the Whistleblowing Policy
- Administered the Whistleblowing cases
- Administered the uploading of files for the 2022 NFI exercise and continue to provide advice and assistance.





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.

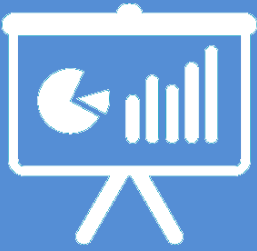
There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings.

The City of Lincoln Council 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 is refreshed periodically.

External Audit

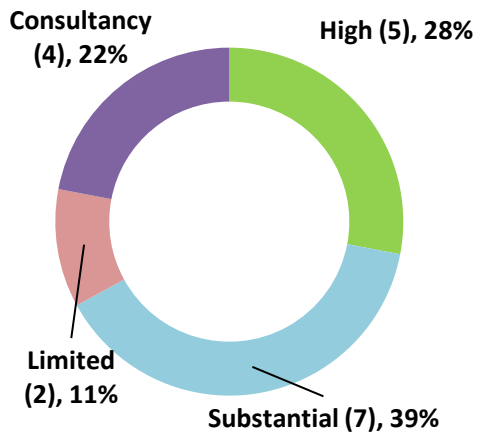
Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work where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

There has been a move in assurance opinions this year with an increase in consultancy work which includes the audit of three grant claims and two Limited opinions issued this year. Full details are provided in Appendix 1.



Reduction in High and Substantial assurance opinions (from 43% and 57%)

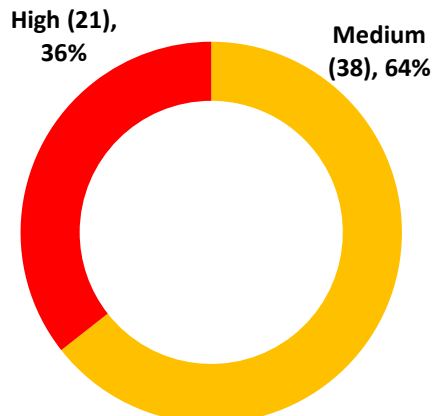


Recommendations

In line with the assurance levels the number of high priority recommendations has increased. A number of the reports were completed late in the year and therefore the recommendations are not yet due which impacts on the number implemented to date which is below target.

High priority recommendations have increased (from 14%)

Medium priority recommendations have decreased (from 86%)



Implemented recommendations have decreased to 25% (from 78%). Target 100%

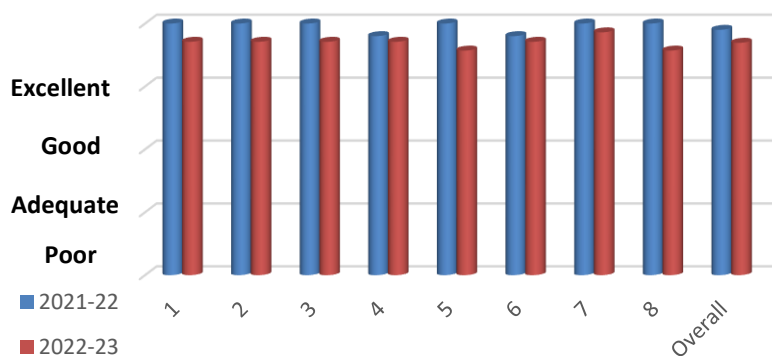


Internal Audit's performance is measured against a range of indicators. Our client feedback continues to be rated excellent.

Performance on Key Indicators

Whilst it has been a challenging year we are pleased to report that satisfaction with our services remains high and we have completed 91% of the revised plan. We recognise that the inability to recruit to the vacant posts has impacted on our ability to complete audits within time which remains below target. In addition to the support from our partner, some of the audits were completed by the Manager and a temporary member of staff who works one day a week which increased the time span. Despite these issues we are pleased that there has been an improvement this year.

Client Feedback – Post Audit Questionnaire Results



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

Another excellent audit!

They were both really helpful and explained their query that they needed me to look at. Really helpful.

Auditors were very helpful in assisting / communicating about the report

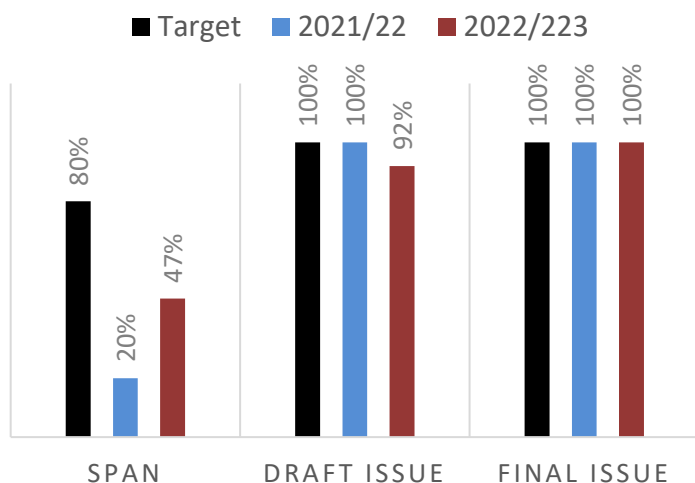


Benchmarking



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) and obtaining management responses.

Timeframes



91%
Of the plan
delivered

We continue to experience delays in obtaining responses to draft reports. 60% have not been received within 10 days with 40% taking two months or longer. We will be looking at ways to improve this once fully staffed including greater liaison with the individual management teams to raise the issues and a more visible documented protocol.

The impact of these delays means that our reports are not being issued in a timely manner and additional resources are taken up chasing responses.

40%
Management
Responses received
within 10 days

The following Audits have been completed during 2022/23:-

Audit	Rating	Type	High	Medium	Total	Implemented
Housing Benefit Subsidy	High Assurance	Risk Based Audit	0	1	1	1
Stores	Limited Assurance	Risk Based Audit	2	8	10	6
ICT Project and Programmes	Substantial Assurance	Risk Based Audit	0	2	2	1
Medium Term Financial Strategy	High Assurance	Risk Based Audit	0	0	0	0
Performance Management	Limited Assurance	Risk Based Audit	7	1	8	6
Organisational Development	Substantial Assurance	Risk Based Audit	0	4	4	0
Key Controls – Property, Plant and Equipment	High Assurance	Risk Based Audit	0	1	1	0
Key Controls – General Ledger	High Assurance	Risk Based Audit	0	3	3	0
Key Controls – Bank Reconciliation	High Assurance	Risk Based Audit	0	0	0	0
Staff Wellbeing	Indicative – Substantial Assurance	Risk Based Audit	N/A	N/A	N/A	N/A
Climate change	Substantial Assurance	Risk Based Audit	0	9	9	0
De Wint Court	Substantial Assurance	Risk Based Audit	12	6	18	0
Housing Repairs	In progress	Risk Based Audit	N/A	N/A	N/A	N/A
Housing IT	Ongoing	Consultancy	N/A	N/A	N/A	N/A
IT Disaster Recovery	Substantial Assurance	Risk Based Audit	0	3	3	0
IT Asset Management	Indicative - Substantial Assurance	Risk Based Audit	N/A	N/A	N/A	N/A
Follow-up	Indicative – High Assurance	Follow-up Review	0	0	0	0
COMF Grant	N/A	Consultancy	N/A	N/A	N/A	N/A
Test and Trace Support Payments	N/A	Consultancy	N/A	N/A	N/A	N/A
Biodiversity Net Gain Grant	N/A	Consultancy	N/A	N/A	N/A	N/A
	Total		21	38	59	14

The approved Plan for 2022/23 was 310 days, but due to staff vacancies it was reduced to 228 and a revised plan approved at the November Audit Committee.

Following this further changes were made to remove the audit of Fleet with replace it with Housing Repairs. Due to further staff vacancies the audit of Western Growth Corridor has been moved wholly into 2023/24, it was previously split over the two years.

The first review of the implementation of the Housing IT system was completed this year and the remainder will be reviewed during 2023/24

as further gateways are reached.

A further grant review was also added to the plan towards the end of the year – Biodiversity Net Gain Grant.

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, the S151 Officer and the Audit Committee.

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).